FINANCIAL TIMES

TV in Germany
Old DFF series still popular in the east
Page 19

Cobalt
Big players head for Zaire
Commodities, Page 32

Marketing
Ayrton Senna as luxury brand
Page 20

Today's surveys
Poland
Cyprus
Separate section, Pages 15-17

World Business Newspaper http://www.FT.com WEDNESDAY MARCH 26 1997

Eurotunnel will keep open freight wagons on trains

Eurotunnel, the Channel tunnel operator, is to rule out redesigning the semi-open wagon system used for freight traffic, in spite of fire brigade claims that the design added to the ferocity of a serious blaze in November. Page 22

Rolls-Royce of the UK and Snecma of France are in talks that could lead to collaboration on a new engine. Rolls chairman Sir Ralph Robins said the talks centred on a new engine for the proposed A340-600 to be built by Airbus Industrie, the European consortium. Page 4

Spanish judge orders Galtieri's arrest

A Spanish judge ordered the arrest of former Argentine dictator General Leopoldo Galtieri, left, in connection with the disappearances of 600 Spaniards during Argentina's 1976-1983 "dirty war" against political opponents. In 1984 an Argentine military court sentenced Galtieri to 12 years in prison for his role in the Falklands War but he was freed in 1989.

BMW, the German motor company, reported a 22 per cent surge in first-quarter sales to DM14bn ($8.3bn), and signalled the return to health of Rover, its UK carmaking subsidiary. Production rose 13 per cent to 319,000 and cars sold rose 8 per cent to 285,000. Page 23; Lex, Page 22

Volvo of Sweden is to announce a joint venture for chassis development of buses and coaches with TWR, a UK engineering consultancy. The results of the collaboration are not expected to be seen on the road until next century. Page 23

Nato base strikers back in talks: After weeks of scattered strikes against Nato bases, German civilian workers demanding better job security said they were suspending their actions for 11 days to resume negotiations.

HK property bids strong: Hong Kong developers signalled their confidence in the future of the territory's property sector, bidding above forecasts for residential sites in a government auction. Sino Land paid HK$11.8bn ($1.5bn) for one site and China Overseas HK$1.4bn for a smaller plot. Page 6

West Bank violence: Clashes between Israeli and Palestinian forces continued in the West Bank towns of Bethlehem and Hebron amid growing US and European Union concern that the peace process is on the verge of collapse. Page 4

French recovery noted: France's economic recovery is slowly gathering pace and stabilising employment for the first time in two years, according to two surveys. Page 3

EU puts off Albanian move: The European Union shied away from a quick response to repeated Albanian requests for the urgent dispatch of an armed contingent to support a humanitarian aid mission and reconstruction of the country. Page 2

Clinton postpones trip: US president Bill Clinton has postponed his first state visit to Mexico and may delay planned visits to Argentina and Brazil until later in the year. Mexico's foreign ministry said Mr Clinton's visit, to have begun on April 11, had been put back until May 6, so the president would have more time to recover from his knee injury.

Philippine Airlines, *the ailing carrier,* bought a 70 per cent stake in MacroAsia, a little-known listed Philippine holding group, triggering rumours that it was about to launch a back-door listing. Page 23

Hostage break hinted: Peruvian rebels holding 72 hostages in Lima would be flown to Cuba in exchange for the release of 17 jailed comrades in a possible solution to the crisis, local newspapers said.

Expensive Cigar: Insurance companies have paid out a record $25m claim to the owners of the record-setting American race horse Cigar, because he has failed to impregnate 39 mares at a Kentucky stud since retiring. Assicurazioni Generali will pay the Coolmore Stud $18.75m and businessman Allen Paulson another $6.25m.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6874.89	(+19.64)
NASDAQ Composite	1258.67	(+8.03)
Europe and Far East		
CAC40	2624.25	(+44.97)
DAX	3348.14	(+27.30)
FTSE 100	4270.7	(+55.9)
Nikkei	18439.61	(+395.79)

US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	5.320%
Long Bond	98½
Yield	6.897%

OTHER RATES

UK: 3-mth Interbank	6⅛%	(same)
UK: 10 yr Gilt	97.3	(97.13)
France: 10 yr OAT	97.95	(97.67)
Germany: 10 yr Bund	100.81	(100.63)
Japan: 10 yr JGB	104.7567	(104.6827)

NORTH SEA OIL (Argus)

Brent Dated	$18.74	(18.92)

GOLD

New York: Comex		
	$347.7	(350.4)
London:		
close	$348.1	(350.5)

DOLLAR

New York: lunchtime		
£	1.617	
DM	1.69215	
FFr	5.7065	
SFr	1.4675	
Y	123.8	
London:		
£	1.619	(1.6122)
DM	1.6887	(1.6892)
FFr	5.7085	(5.6955)
SFr	1.4658	(1.4577)
Y	123.865	(122.815)
Tokyo close:	Y 123.15	

STERLING

DM	2.7322	(2.7217)

Fed raises key short term rate

Quarter-point rise to cool economy

By Gerard Baker in Washington

The US Federal Reserve yesterday raised its key short-term interest rate by 0.25 percentage points, the first increase in more than two years.

The rise in the central bank's federal funds rate, to 5.5 per cent, was designed to cool an economy that has been growing at a sizzling pace in the last six months.

The change was decided at yesterday's meeting of the central bank's policy-making open market committee.

The Fed said it had been taken "in the light of persisting strength in demand, which is progressively increasing the risk of inflationary imbalances developing in the economy that would eventually undermine the long expansion".

Bond and stock prices turned lower on the news.

Most analysts had expected the quarter-point change, but were uncertain as to whether it marked the beginning of a long monetary tightening or would prove sufficient on its own to ease inflationary pressures.

US interest rates are already high in inflation-adjusted terms, and few analysts expect the change to be followed by the sort of fierce tightening that took place when the Fed last began to raise rates in 1994.

But the tone of the Fed's announcement appeared to suggest that the move might be followed by more.

It dwelt heavily on the inflationary risks, saying it was to be "viewed as a prudent step that affords greater assurance of prolonging the current economic expansion by sustaining the existent low-inflation environment through the rest of this year and next".

The Fed left the discount rate it charges banks unchanged at 5 per cent.

Mr Alan Greenspan, the Fed chairman, has warned repeatedly in the last two months that the central bank might make a pre-emptive strike against inflation, before there were clear indications of an acceleration in costs.

The current economic expansion has lasted so far for six years and, in spite of continuing demand growth and a fall in unemployment to close to the lowest level in 10 years, there have been few signs of any pressure on costs.

But in the last six months the economy appears to have moved up a gear. In the last three months of 1996, gross domestic product grew at an annual rate of 3.9 per cent.

That momentum has slowed only slightly in the first quarter of 1997, with annual growth likely to be over 3 per cent in that period.

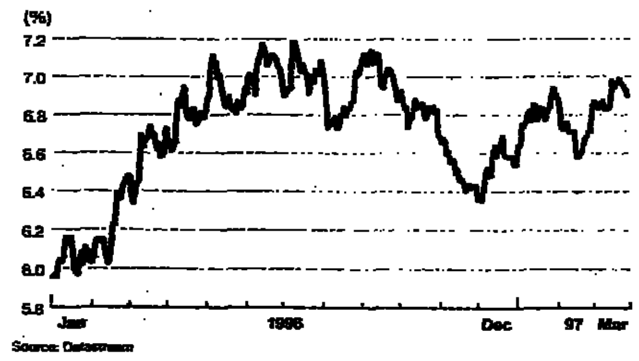
The Fed last changed interest rates in January last year, when it lowered the Fed funds rate. The last increase was in early 1995.

Mr Eric Miller, chief investment officer at Donaldson, Lufkin & Jenrette, said the Fed's primary goal may have been to alter the exuberance of the stock market earlier this year.

Interest rate differentials between US and overseas bond markets are expected to remain relatively steady in the wake of the Fed's move, international market analysts said.

Pre-emptive strike, Page Five; Editorial Comment, Page 21; Lex, Page 22, Bonds, Page 30; Currencies, Page 31

30-year Treasury Bond yield



Source: Datastream

Italy breaks ranks to suggest Emu delay

By Lionel Barber and Robert Graham in Rome

The risk of the proposed single currency splitting the European Union cast a shadow yesterday over celebrations to mark the 40th anniversary of the Treaty of Rome.

As EU foreign ministers gathered in Rome, Mr Lamberto Dini, Italy's foreign minister, broke ranks with his colleagues by suggesting that a delay in the launch of economic and monetary union by one year to January 1 2000 would be desirable.

His intervention came as Britain launched a stinging attack on Franco-German proposals for a phased integration of the EU and the Western European Union (WEU), its fledgling defence policy arm.

Mr Martin Taylor, chief executive of the UK's Barclays Bank, warned of the dangers of forming a broad European monetary union without much greater economic convergence. He urged European politicians and central bankers to "stop fooling themselves" and "have the courage either to go forward with a small Euro-zone or to postpone the project altogether." Many countries, including the UK, were not ready to enter Emu, and the risk of serious error in setting their entry exchange rates was high.

Mr Malcolm Rifkind, the UK foreign secretary, said the proposal risked undercutting the Nato alliance and provoking Russia. His views were shared but not stated so robustly by the EU's four neutral states, Austria, Finland, the Irish Republic and Sweden.

Despite growing doubts about the feasibility of the Emu timetable, notably in Germany, the idea of a delay is still considered heresy in official circles in Europe.

EU foreign ministers at the celebrations were quick to dismiss Mr Dini's comments, which were given in a newspaper interview marking the 1957 Rome treaty. The treaty established the European Economic Community with Italy as one of the six founding members.

Mr Klaus Kinkel of Germany said Emu was a "question of destiny" for Europe. Mr Hervé de Charette, foreign minister of France, said a delay would force an unacceptable and impractical re-

Continued on Page 22
Santer backs action, Page 2
Edward Mortimer, Page 20

Tokyo prosecutors arrive to search Nomura Securities, Japan's largest stockbroker, over suspicions that it channelled cash to a company connected with gangsters. Report, Page 22 Reuter

Taiwan launches assistance plan to save pig industry

By Laura Tyson in Taipei

The Taiwan government has launched an emergency assistance package to save its lucrative pig industry from an epidemic of foot-and-mouth disease.

A pig slaughter programme has been extended to cover every animal in any herd where a case is found, exports have been banned and the government has bought 8m units of vaccine from the UK to be handed out free.

The epidemic is a blow to Taiwan which has more than 10.5m pigs – one for every two people.

The island is the fourth-biggest per capita consumer of pork after Denmark, Spain and France. The pork industry's turnover is estimated at T$86.6bn ($3.14bn) in 1996, or about 20 per cent of Taiwan's agricultural output.

Mr Lien Chan, premier, said yesterday T$20bn would be available for loans at an interest rate of 3 per cent to farmers, exporters and related industries, and announced the closure of pork wholesale markets for at least five days.

The authorities have faced mounting criticism over their handling of the disease, which threatens to destroy the industry and hamper the island's fragile economic recovery.

The stock market continued to fall yesterday, shedding 1.3 per cent. Economists said the crisis would increase unemployment and cut at least half a percentage point off economic growth, taking into account the knock-on effect on related industries.

In a scenario reminiscent of the UK's BSE scare last year, government officials have put on a brave show of eating pork. But domestic sales have all but evaporated and consumers have switched to chicken. Pork's image has not been helped by television footage of plastic-suited soldiers electrocuting pigs and burying them, often still alive.

Taiwan is Japan's biggest supplier, providing 40 per cent of Japan's pork imports. The crisis will exacerbate Taiwan's

Continued on Page 22

Internet access may be restricted

By Nicholas Denton in San Francisco

Unlimited access to the Internet in the US is on its way out.

Pacific Telesis, the largest telecommunications company in California, and Netcom, the biggest Internet service provider in the state, are taking measures to deter users who hog connections.

Netcom, based in San Jose, pioneered a package of unlimited use for a flat fee of $19.95 a month, but from next month will begin to disconnect Internet users who leave their connections permanently open.

Pacific Telesis, the regional Bell company which provides telecommunications in California and neighbouring states, yesterday called on the Federal Communications Commission to allow it to charge one cent per minute for local calls carrying Internet traffic.

If these initiatives are adopted by other Internet service providers, keen Internet users could face higher costs. A reform of Internet pricing is also likely to bring more reliable access.

Internet service providers and telecommunications companies are also exploring ways of charging users according to the volume of traffic they generate, the number of hops a message makes to reach its destination and the urgency of delivery.

A video-conferencing link on the Internet, which requires an unbroken connection and consists of many bits of information, would cost more than sending an electronic mail message in plain text which can be routed over the network at off-peak times.

Netcom's flat-fee pricing plan was popular with consumers when introduced three years ago and it has been widely copied, most recently by America Online, the world's largest online service provider.

But some users in the US have dedicated a telephone line for their Internet connection and left it open, causing congestion on the telephone network and overloading the service providers.

Pacific Telesis estimates up to 20 per cent of calls in Silicon Valley fail at peak hours due to overloaded switches.

America Online last month announced it would take a $24m charge against its earnings to compensate users who have not been able to connect to the Internet since it introduced flat-fee pricing.

Netcom will warn users if they are loitering online and disconnect them at peak times.

CONTENTS

NEWS: EUROPE

Santer backs action against ministers

By Caroline Southey in Brussels

The European Commission was set on a collision course with the Council of Ministers yesterday after Mr Jacques Santer, president of the Commission, called for court action against EU farm ministers.

Mr Santer's initiative reflects his fury at the farm ministers' decision last week to block the European parliament's involvement in drawing up legislation under which beef would have to be labelled with its country of origin by the year 2000.

The ministers' decision was in open defiance of Mr Santer's pledge to MEPs earlier this year that in future farm policies would be decided by "co-decision" between the council of ministers and the parliament.

To achieve this, farm ministers should have backed the Commission's proposal, tabled under Article 100 (a) of the treaty to ensure MEPs had the right to vet the directive.

Instead, they opted to agree the proposal under Article 43, the traditional route for agricultural legislation which excludes parliamentary scrutiny.

"The president is trying to change the emphasis in agricultural policies so that the focus is on health issues, not just market management," a Commission official said.

A court ruling would "make clear once for all" the issue of parliamentary involvement in EU farm policy-making, he added.

Although the Council has the power to overturn Commission proposals, Mr Santer and the parliament believe MEPs should be more closely involved in farm policy to ensure consumers' interests are better protected.

Mr Santer wants the Commission to back the parliament's environment committee which last week pledged to take up a case against the ministers in the European Court of Justice.

However, EU officials said Mr Santer was ready to press for the Commission to act alone if the parliament failed to initiate legal proceedings.

Mr Santer is under pressure to improve the Commission's record on consumer safety in the wake of an inquiry by MEPs into the handling of "mad cow" disease. A report by MEPs concluded the Commission had "mismanaged" the crisis, partly because it had put the interests of farmers ahead of consumer safety.

MEPs have threatened to vote on a motion of censure against the Commission later this year unless it takes action to restore consumer confidence in EU agricultural policies. MEPs backed down from such a vote in February after Mr Santer's promise of closer co-operation with the parliament.

Belgian jobs scheme approved

By Neil Buckley in Brussels

The European Commission last night approved a Belgian scheme aimed at creating jobs by reducing social security contributions for all companies employing manual workers.

The plan is the fourth in a series of initiatives, titled Maribel, aimed at reducing the crippling social cost burden shouldered by Belgian employers. It is an important part of the Belgian government's attempts to cut unemployment.

Manual workers are singled out by the scheme as they are seen to be particularly vulnerable to the effects of automation. As the scheme involves tax breaks, it must be approved by the Commission to ensure it does not represent illegal state aid.

Last December Brussels ruled a previous Maribel scheme broke European Union state aid rules, and ordered Belgium to reclaim BFr11.4bn ($327m) which companies should have paid in social contributions in 1995.

The Commission rejected the scheme because it granted additional reductions to companies in sectors most exposed to international competition.

In contrast, the latest "Maribel 4" programme allows all companies to save between BFr20,000 and BFr34,000 per manual worker in social costs, depending on the proportion of manual workers they employ.

The Commission said yesterday the plan was a "general measure" to boost employment, which did not represent illegal state aid since it did not discriminate between sectors and so risk distorting the European single market in those sectors.

The decision came two weeks after the Commission rejected in principle a French plan to help the textile industry, on the grounds that it was a sectoral scheme which could distort competition.

The Commission invited France to come up with changes to the plan so that it would meet EU law. But France is now thought likely to propose a new scheme, to replace the one rejected by Brussels, within the next few weeks.

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R

EU shies off sending troops to Albania

By Lionel Barber and Robert Graham in Rome

The European Union yesterday shied away from a quick response to repeated Albanian requests for the urgent dispatch of an armed contingent to support a humanitarian aid mission and longer-term reconstruction of the country.

Divisions among the 15 member states were too deep to forge a consensus at a meeting of EU foreign ministers in Rome to celebrate the 40th anniversary of the signing of the Treaty of Rome.

Mr Bashkim Fino, Albania's prime minister, had come to Rome with ministers of his government to make a collective appeal to the EU for a multinational force he believed was the only way of restore order in his country.

But Britain and Germany refused to budge from earlier objections to sending any military mission to Albania. France, on the other hand, backed military intervention as part of strengthening the defence arm of the EU.

Mr Malcolm Rifkind, British foreign secretary, called military involvement "premature" because the situation on the ground was still so confused. Mr Klaus Kinkel, German foreign minister, ruled out sending his country's soldiers, arguing conditions in Albania bore no similarity to the Nato-led peace-keeping operation in Bosnia.

Italy is under domestic pressure to stem the flow of Albanians seeking refuge by fleeing in boats across the Adriatic. It is staking its prestige on leading management of the Albanian crisis.

Mr Lamberto Dini, Italy's foreign minister, yesterday put a brave face on these differences. He claimed a decision would be taken within "a matter of days" and insisted Italy would not act alone even though it has assumed major responsibility for Albania.

Italy has been obliged to cast the net beyond the EU for allies to take part in a multinational force. Romania and Turkey have signalled interest in contributing to an eventual stabilisation force of at least 3,000 troops.

A second EU-led advisory mission has arrived in Tirana, capital of Albania, to underline Europe's willingness to help restore a semblance of order and prepare for fresh elections in June.

The mission was made up of all those who have given specific undertakings to send military personnel: France, Italy, Portugal, Greece and Spain, plus Austria which is also expected to back such a move.

Brussels in move to cut airport charges

By Caroline Southey

The European Commission will shortly unveil plans to cut airport charges to airlines by exposing wide discrepancies across the European Union.

The drive to cut costs will coincide with the final phase of air transport liberalisation in the EU which comes into effect on April 1. The Commission views airport charges as the last important area unaffected by greater competition in the sector.

"Airports operate as natural monopolies. There must be rules about how they fix costs for airlines," an EU official said.

The airline industry has pressed Mr Neil Kinnock, commissioner for transport, to come forward with proposals. However, the plans are likely to face stiff resistance from airport authorities already threatened with loss of income from the abolition of duty-free rights within the EU.

"Charges for similar aircraft are in some instances 10 times higher at some EU airports compared with others in the union," said the official.

Under the proposal, airport authorities would be obliged to explain how their charges are calculated.

"Airlines find it difficult to question the amounts they are asked to pay for services at airports. There has to be more transparency in the system and airports will have to start consulting airlines about charges," the official added.

The proposal would also give airlines the right to challenge charges. Authorities would have to show that there was a "reasonable relationship" between the costs of running airports and the charges airlines were asked to pay.

The plan also has a non-discrimination clause to ensure airports do not increase charges unnecessarily for different types of aircraft or for flights from destinations outside the EU. "Charges should be objectively justifiable," the official said.

However, the proposal does allow airports to vary charges for environmental reasons. Airports would be justified in imposing higher charges for "noisy, smelly" aircraft, as well as for very late or early landing slots.

Russians going hungry as state finances wither away

The teachers of School No 74 in Ulianovsk, Lenin's birthplace, have little good to say about their government.

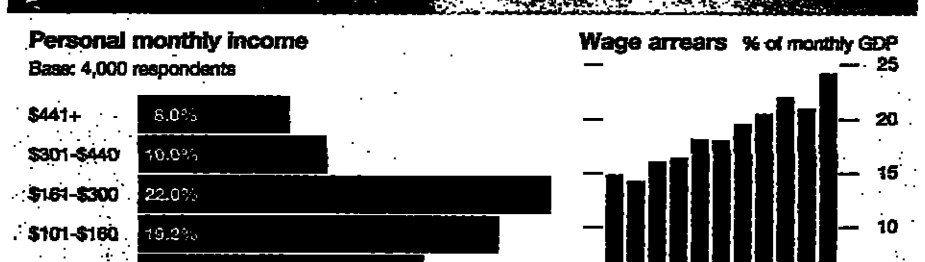
"Every day we face the same basic struggle: not to die from hunger," says Ms Tatyana Tytiokhova, who last received her Rbs300,000 ($53) monthly salary in December.

"It's an embarrassment. Our wages are unpaid, the classrooms are cold and run-down. We would starve if each spring my parents did not go out and tend the family garden plot."

She and her colleagues called off class three weeks ago and walked out in protest, as did seven other schools in the town, 1,000 miles east of Moscow.

They are not alone in their frustration. Trade unions predict that across the country as many as 20m Russians may join them tomorrow to demand their back wages in what they claim will be the biggest demonstration in post-Soviet history.

Russia: old poor and new rich



Source: The Russian Market Research Co; Russian Economic Trends

This alarming build-up of wage and pension arrears, estimated by the trade unions to total Rbs51,000bn, has resulted from the chronic state of Russia's public finances.

The government's failure to collect enough taxes last year meant it met only three-quarters of its budget commitments and was forced to delay payments to millions of federal employees and pensioners.

Mr Alexander Solzhenitsyn, the famed author, has expressed outrage at this "shameful debt" and complained: "We cannot live like this any more".

Railing against the country's privatisation programme and the "idiotic diktat of the International Monetary Fund", Mr Solzhenitsyn warned in a television interview this week that Russia was in great danger because of the gulf that was emerging between rich and poor.

He said Russia's schools, educational system, science and culture were being destroyed through lack of funding. "They are rotting away, they are falling apart in front of our eyes. In a few more years we will have turned into a second-rate African power," he said.

His rhetoric has been matched by the fierceness of the academic debate which rages over how to assess living standards and the extent of poverty in Russia.

Those supporting the government's reform programme argue that macro-economic stabilisation, which last year cut the annual inflation rate to 22 per cent, has begun to lift millions of Russians out of poverty. The eye-catching growth of the informal economy has also raised incomes and living standards for large swathes of the population.

But a study conducted by the International Labour Organisation last year disputed such claims. "There should be no pretence. The Russian economy and the living standards of the Russian population have suffered the worst peacetime setbacks of any industrialised nation in history," it concluded.

One of the most alarming developments it highlighted was the growth of the "working poor", particularly among professionals in the public services.

According to the state statistics committee, 36 per cent of employed workers were receiving wages less than the official subsistence minimum.

Sensing the ugly mood of the country, President Boris Yeltsin has already gone a long way to disarming his critics by condemning his own government for its inactivity and accepting that the protests are legitimate.

The new reformist leadership he has now put in place has promised urgent action to tackle the welfare crisis, and the partial payment of Rbs5,000bn in back salaries has also taken some sting out of the trade unions' protest.

Although the opposition press has been agitating for acts of civil disobedience, the strike's national organisers yesterday distanced themselves from the Communist party after its fruitless presidential campaign last year. They also shunned comparisons with recent upheavals in the Balkans.

Mr Yuri Kuznetsov, chairman of the Ulianovsk Trade Unions Federation, says: "The people got used to the government giving them social guarantees and it is tough to get used to fighting for them."

Matthew Kaminski and John Thornhill

Sky's the limit for Russia's 'Manhattans'

Market research companies studying the potential spending power of Russian consumers often paint a very different picture of the economy from that presented in official statistics, writes John Thornhill in Moscow.

One of the latest reports*, based on a survey of 2,000 households from Murmansk to Vladivostok, suggests the informal economy is far stronger than commonly believed and has created a relatively wealthy middle class. It estimates the average household income at between $205-$220 a month, twice the official figure. The study divides consumers into eight clusters, three of which are particularly attractive to western consumer products companies.

One cluster, "the Manhattans", represents many of the former Soviet elite and for perhaps 5.8m of Russia's 148m population. Typically, they are well-paid, middle-aged managers and professionals with an income of more than $400 a month. Most live in big cities, drive top-of-the-range Russian cars or foreign imports, and often holiday abroad.

The "White Collars", accounting for another 9.9m, are younger university-educated office workers earning more than $300 a month. Optimistic about the future, they participate in sports, go to the theatre and save part of their income.

"Young Russians", comprising 8.4m, are gradually improving their standard of living and spend the most on leisure and entertainment. These professionals and skilled workers are keen car buyers and 12 per cent earn more than $440 a month.

**Inside Russia. The Russian Market Research Company, 2 Khoroshevsky Proyezd, 7/1, 123007, Moscow, Russia. Fax: (7095) 955 2450*

EUROPEAN NEWS DIGEST

Curb proposal upsets Jews

The leader of Germany's Jewish community yesterday rejected a conservative politician's suggestion that he help negotiate a limit on Jewish immigration from the former Soviet Union. "I will not talk with the federal government about what number of Jews living in Germany is appropriate," said Mr Ignatz Bubis, head of the Central Council of Jews in Germany.

He said the idea was reminiscent of Polish Jews bargaining with Nazi occupiers during the second world war. "I definitely will not hold such talks," Mr Bubis told Suedwestfunk radio. "This is a matter for the government."

Chancellor Helmut Kohl's party is reported to be planning to curb work opportunities for foreigners from outside western Europe because of record postwar unemployment in Germany. Measures being drafted by the Christian Democratic Union include immigration quotas for Jewish immigrants and ethnic Germans from the former Soviet Union, according to Der Spiegel magazine.

Mr Wolfgang Zeitlmann, domestic affairs spokesman for Mr Kohl's Bavarian ally, the Christian Social Union, suggested in a newspaper interview yesterday that Mr Bubis negotiate a quota for Jewish immigrants with the government. *AP, Bonn*

Kremlin hits at Belarus

The Kremlin harshly reprimanded its closest ally, Belarus, yesterday, saying the expulsion of a Russian journalist from Minsk prompted "deep concern". The criticism of President Alexander Lukashenko marked a rare departure for Moscow, which has overlooked his murky record on human rights in nurturing ties.

Authorities in Minsk expelled Mr Alexander Stupnikov, a correspondent from NTV, Russia's largest independent TV channel, in a crackdown on the media that followed an anti-Lukashenko rally at the weekend which turned violent. Belarus also expelled a US diplomat.

As local media are heavily censured, Russian media are the only source of critical coverage of Belarusan politics. Mr Stupnikov's reporting has helped turn Russian liberals against the Kremlin's embrace of Belarus.

The loss of Russian support could weaken Mr Lukashenko, but no breach looks imminent. He will meet President Boris Yeltsin in Moscow next week, when the two Slavic leaders are expected to discuss prospect for closer integration. *Matthew Kaminski, Moscow*

Extra budget for Belgium

Belgium's prime minister, Mr Jean-Luc Dehaene, yesterday presented to parliament an additional BFr10bn ($287m) of budget measures designed to ensure Belgium meets the criteria for European monetary union.

The measures, agreed with ministers over the weekend, are aimed at reducing the budget deficit to 2.9 per cent of GDP – below the Maastricht treaty limit of 3 per cent.

Unexpectedly low tax receipts so far in 1997 meant additional measures had to be taken on top of the BFr80bn savings in the budget announced last October.

The corporate sector will bear the brunt of the measures, with a tax on pharmaceuticals companies' turnover rising from 1 per cent to 4 per cent, and a profits tax on Electrabel, the electricity monopoly, increasing from 12 to 14 per cent. There are also BFr3bn of public spending cuts, while a clampdown on tax evasion is projected to save BFr2bn. *Neil Buckley, Brussels*

Support for EasyJet plea

Complaints from Easyjet, the UK budget airline, of predatory pricing by the Dutch airline KLM appeared to have some substance, a European Commission official said yesterday.

The official confirmed that the Commission's competition services raided KLM's head offices in Amsterdam in mid-February after complaints from the UK operator that KLM was trying to price it out of the market. The Commission inquiry is understood to be continuing, and is expected to last for some months.

Easyjet, owned by Mr Stelios Haji-Ioannou, the Greek Cypriot entrepreneur, began cut-price flights from the UK's Luton Airport to Amsterdam, Barcelona, Nice and Edinburgh in 1995. Its £35 ($55) one-way fare to Amsterdam was much lower than KLM's standard Fl 400 ($211) return fare. KLM later lowered its fare, and Mr Haji-Ioannou said he believed it was operating below cost.

EU competition laws forbid abuse of dominant market positions, including predatory pricing, and the Commission can order companies to raise prices if it finds them abusing the law. *Neil Buckley and Agencies, Brussel*

Holocaust fund at SFr285m

The size of the private sector Swiss Holocaust fund for victims of Nazi persecution has risen to SFr285m ($195m) following a commitment of SFr20m by smaller Swiss banks. The big three Swiss banks set up the fund last month with a SFr100m donation. The Swiss National Bank has donated SFr100m and Swiss industry has already pledged another SFr65m.

The Swiss Bankers Association disclosed the donation yesterday and said it hoped that it would be possible to "provide help quickly and in a targeted way to victims of the Holocaust".

The private sector fund is separate from the proposed SFr7bn Swiss foundation for solidarity, which is being se up to help needy people both in Switzerland and abroad, including Holocaust victims. *William Hall, Zurk*

ECONOMIC WATCH

Swedish trade gap smaller

Sweden had a trade surplus of SKr10.7bn ($1.4bn) in February, down from SKr10.8bn in January, the Swedist Central Bureau of Statistics said yesterday.

The February figure was slightly above market expectations of a surplus of about SKr10.3bn. In Februar 1996 Sweden had a trade surplus of SKr9.6bn. In Februar this year, exports totalled SKr48.8bn and imports SKr38.1bn.

Over the last 12-month period, Sweden has registered a trade surplus of SKr119.5bn. In the first two months of 1997, it totalled SKr20.3bn. *AFP, Stockhol*

■ A survey by leading Swiss economists expects Swiss 1997 gross domestic product to grow less than forecast in December 1996, but remains optimistic for 1998. The quarterly Business Economists' Consensus, published yesterday, expects GDP to grow 0.44 per cent in 1997 and 1.68 per cent in 1998; the December forecasts had been fo 0.61 and 1.66 per cent respectively. *AP-DJ, Zurk*

French recovery gathers pace

Employment stabilising but investment fails to take off

By David Buchan in Paris

France's economic recovery is slowly gathering pace and stabilising employment for the first time in two years, according to two new surveys.

The number of company managers predicting a rise in turnover and, to a lesser extent, in jobs has risen over the last six months, though only one in three plans to increase investment, according to a report yesterday by the Paris Chamber of Commerce and Industry (CCIP).

This study, in which the Ifop organisation polled more than 6,000 company heads – a disproportionate number in the Paris region – accords with the latest prediction of Insee, the official statistics agency, of "a marked improvement" in the first half of this year. The agency forecast the economy would expand at an annual pace of "close to 2.5 per cent" in the first six months, up from around 2 per cent in July-December 1996.

"Job destruction, which since mid-1995 has been linked to the slowdown in activity, virtually came to a halt in the fourth quarter of 1996," Insee said. But it warned that many new jobs were temporary, filled either through labour agencies or on a fixed term. It also warned that the phasing out of military conscription would swell the labour force. Therefore, the jobless rate would still continue to rise, from 12.7 per cent in February to 12.9 per cent in June, according to Insee, which last December estimated unemployment would hit 13 per cent in mid-1997.

France's trade surplus, at a record last year, may grow even further, according to Insee. It noted that currency movements – especially the rise of the dollar, sterling and lira against the franc – "have since the beginning of 1997 continued to act in favour of French export competitiveness". Gradually, firmer domestic demand should replace exports as the main engine of growth.

But, like the CCIP poll, the Insee study is pessimistic about investment, which still seems incapable of taking off. Despite excellent financing terms and better balanced exchange rates, it will grow only a very modest 0.1 per cent in the first half of this year, estimates Insee; last December it predicted a 0.9 per cent increase for January-June. "The low level of capacity utilisation in industry is providing no incentive to invest ... business leaders remain prudent" because they are not sufficiently convinced of demand.

Insee yesterday said consumer prices rose 0.2 per cent in February to give a retail inflation rate of 1.6 per cent over the past year. This is a slight fall from the 12-month rate of 1.8 per cent in January, and in this context companies have little incentive to build up stocks and inventories of goods they believe may become still cheaper in coming months.

Interns lead move against Juppé reform

By David Buchan

Leaders of France's striking young hospital interns yesterday called on all hospital medical staff to join their national demonstration in Paris tomorrow against the government's health spending controls.

The protest by many of the country's 16,000 interns – trainee specialists – has spread to most of the country's 26 teaching hospitals and tomorrow's demonstration will be supported by several of the big medical unions, still unreconciled to the plan of the prime minister, Mr Alain Juppé, in effect to fine those doctors held to be wasteful prescribers of drugs or treatment.

But there is no sign the government will back down on what its spokesman this week said was a reform that had been "voted on, accepted by the French and negotiated for more than 18 months with the medical profession".

Yesterday, the leader of the MG-France union of general practitioners, which backs the Juppé reforms, said he had "no fear about the firmness" of the government's resolve.

Right from the start when they were proposed in 1995, the Juppé reforms have divided specialists from general practitioners The government's analysis is that France spends more than other European countries on health, partly because it has too many over-prescribing specialists. The reforms include the possibility of individual and collective financial penalties on doctors, as well as making it harder to consult specialists without going via a general practitioner.

Most of the specialists' medical unions, however, grudgingly accepted the government's reforms, until the country's trainees – who are not unionised – suddenly took against changes which they see as denying them a just return on the long training they have to undergo. The trainees have already won exemption from any penalties for their first seven years of independent practice, but now appear to be contesting the principle of the reform.

Klaus defends Czech voucher privatisation

By Vincent Boland in Prague

Mr Václav Klaus, the Czech prime minister, yesterday defended his government's voucher privatisation programme but said that if he could start again he would do some things differently.

Amid deepening gloom about the sluggish Czech economy, three years after the huge transfer of ownership from the state to private hands ended, aspects of voucher privatisation such as lack of regulation and the slow pace of industrial restructuring have become topics of heated debate.

Klaus: on defensive

It is unusual for Mr Klaus or other ministers, who regard the benefits of voucher privatisation as self-evident, to feel the need to defend it publicly. But before an audience of international bankers and investors who question the depth of economic reforms, Mr Klaus went on the defensive.

"I am still convinced that voucher privatisation was a success and the catalyst for growth," he said. But he admitted to mistakes, especially in the approach to industrial restructuring, which has been delayed rather than speeded.

Too many banks and finance houses were allowed to set up, he said, and too many of them "are not in the best hands". This appeared to be a reference to recent bank failures and fraud scandals at some investment funds, which control much of industry after privatisation. "With the benefit of hindsight we can see what should [have been] avoided," Mr Klaus said.

Much of the criticism of the Czech reform process is aimed at the failure to ensure regulation of the stock market. There is now a crisis of confidence on the Prague stock exchange, while a debate continues on setting up a market watchdog to curb insider trading, theft of investment fund assets and other abuses.

Mr Klaus said he was aware of investor concerns but attacked "those critics, mainly foreigners", who expected the standards of Wall Street or the City of London.

He also said pessimism about the economy was overdone but reserved judgment on how 1997 would turn out. Economic growth fell to 4.4 per cent in 1996 from 4.8 per cent in 1995, and there was a sharp slowdown in the opening weeks of this year.

There was some good political news for Mr Klaus yesterday when an MP from the opposition Social Democrats defected to join the prime minister's Civic Democrats. The move by Mr Tomas Teplik gives the ruling coalition 100 of parliament's 200 seats, ending its minority status.

A second Social Democrat, Mr Jozef Wagner, who was expelled from the party for voting with the government, may also join the coalition, according to newspaper reports.

Idea whose time has come

IMF demands currency board for Bulgaria – but the notion was not always so popular, reports **Anthony Robinson**

A pirated translation of a minor 1991 classic originally entitled *Peace for the Bulgarian lev* and written by Professor Steve Hanke of Johns Hopkins University, Baltimore, is a hot item in the Sofia book market. Its new title is *Currency board – beginning or end?*

Last week, the International Monetary Fund answered the question by announcing a $658m financial package designed to tide the country over until the harvest and make sure that a currency board is up and running by June.

The IMF was not always so obliging. Prof Hanke, whose advocacy of the rigid monetary system was first accepted by Argentina in April 1991, recalls that the Fund was then strongly opposed to a system whose main virtue he sees as imposing fiscal discipline. This is achieved by tying the domestic money supply rigidly to the level of hard currency reserves, making it impossible for governments to print money to finance deficits or the losses of enterprises.

Scepticism also ruled when the Estonian government, desperately seeking a way to rid itself of the Russian rouble, introduced a currency board as part of a broader monetary reform in June 1992. This helped to replace the uncontrollable, inflationary rouble with the Estonian kroon.

The currency reform underlined the country's new-found sovereignty and insulated the Estonian economy from the inflationary recession of neighbouring Russia. It also turned the IMF's initial scepticism to open support and attracted the attention of Lithuania, which introduced a board with full IMF support 18 months later.

By December 1995, the IMF's enthusiasm for the discipline of a currency board as an antidote to turbulent economic and political environments was almost evangelical. At the IMF's insistence, article seven of the Dayton and Paris peace agreements obliged the Bosnian central authorities to put in place a currency board, keep it for at least six years, and appoint a foreign national to head it.

"It was a 180 degree turn. No currency board – no money," recalls Prof Hanke, now an adviser to Bulgaria's President Petar Stoyanov. He is trying to persuade the president that the Bulgarian board should be as orthodox as possible. "That means setting up the new entity as a separate monetary authority, partly run by foreign nationals and with a mandate to last as long as possible – for at least 6-10 years. The more orthodox it is, the more credibility it will give to dealing with the huge foreign and domestic debt problem," he argues.

The introduction of a currency board regime was originally proposed in October by the IMF after the Socialist government led by Mr Zhan Videnov failed to honour the terms of a $580m, three-year World Bank loan. After initial doubts the Socialist government was persuaded there was no alternative. But the government was forced to resign before it could draw up the necessary legislation and put the plan into effect.

The incoming caretaker administration, led by Mr Stefan Sofiyanski, mayor of Sofia, won all-party support for introducing a currency board whichever party wins the elections. With these assurances the IMF agreed a $658m financing package backed up by a further $290m from the World Bank and up to $400m from the EU.

Mr Ivan Kostov, leader of the Union of Democratic Forces, whose mass rallies in January forced the ruling Socialist party to resign and make way for elections on April 19, has called for "wide support and a stable parliamentary majority" to establish a currency board and sustain the strict new financial regime.

The Bulgarian government is receiving rather different advice, however, from Prof Jeffrey Sachs of Harvard University. Last week in Sofia, Mr Sachs, the main intellectual supporter of Poland's 1990 stabilisation programme and an advocate of speedy and deep structural reforms, warned Bulgarians against expecting too much from a currency board.

He argued that it was essentially a short-term solution which had to be accompanied by other measures if the country was to tackle the structural problems left by seven years of halting and chaotic policies which encouraged the looting, rather than the privatisation, of state assets and left the banking system virtually bankrupt.

Prof Hanke, however, is convinced that currency boards are a long-term solution in the treacherous waters of Balkan politics. "A currency board puts manacles on the devaluers. This is all you can do in Balkan politics. The real power of the board system lies on the fiscal side. It takes the punch bowl away, and in places like the Balkans that's the only way you can get spending under control," he insists.

To clinch his argument, he quotes his favourite line from Karl Schiller, the former social democratic German economics minister of the 1970s: "Stability is not everything – but without stability everything is nothing." These are words with special resonance at present in Albania, where anarchy, not democracy, has emerged from the wreckage of Enver Hoxha's tyranny.

"I advised the Albanian government to set up a currency board in 1992. Nothing happened. But as soon as the dust settles I'll be back."

NEWS: INTERNATIONAL

Banks are looking forward to issuing multi-function cards

Visa rolls out its new chip card toolkit

By George Graham, Banking Correspondent

Visa, the international payment cards consortium, yesterday rolled out its new toolkit to help banks migrate from today's magnetic stripe cards to the chip cards.

The programme includes a set of standard payment services, including Visa's regular credit, debit and stored value functions, as well as a new set of technical specifications for banks to develop their own chip applications, using the Java computer language.

Visa is also working on adapting its VisaNet payments network to handle chip card applications, and is working with leading makers of point of sale terminals, such as De La Rue Fortronic and Hypercom, to develop equipment which will handle the new cards.

While plastic cards with embedded chips have been used in a wide range of pilots and national schemes, these have generally been for a single function, such as stored value cards which can be loaded with money in advance instead of being used to tap a separate bank account.

Banks are looking forward to being able to issue multi-function cards, which can not only carry out payment functions but also administer proprietary loyalty schemes – and be accepted outside their home country.

Mr Ed Jensen, president and chief executive of Visa International, said the aim of his organisation's new "Partner Programme" was "to let banks and countries proceed at their own pace."

In South Africa, four leading banks are already planning to issue chip cards combining a variety of different functions by the end of this year, although their technology may need to be modified later to comply with international standards.

Russia, too, is likely to move early to chip cards because there is considerable demand for payment services but inadequate telecommunications infrastructure to handle the sort of on-line payment authorisations used in western Europe or north America.

"In other countries like the US there is such a large installed base of magnetic stripe that it will take some time... We are probably talking 10 years," Mr Jensen said.

In the UK, a chip card offering credit or debit is to be piloted this autumn, while Visa's stored value card is also to be piloted in a separate test.

The Visa programme is based on open industry standards such as the Java computer language, and will give banks the tools to develop their own applications and load them onto a card.

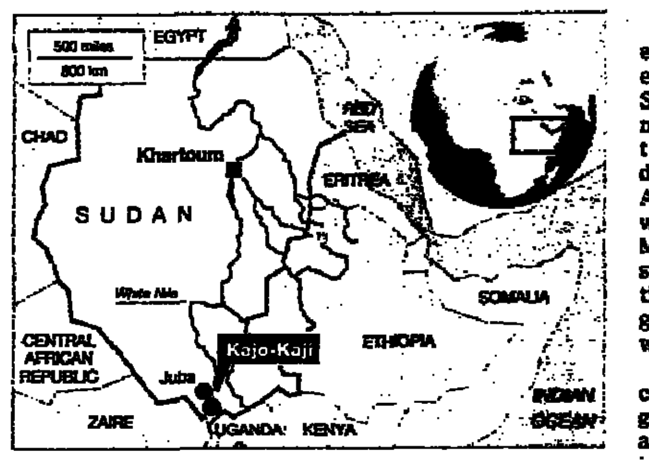
"By using an open technological platform based on Java we will be able to progress with other schemes on inter-operability and common standards," said Mr Hans van der Velde, president of Visa's European region.

The system is intended to comply fully with the standards for chip cards developed jointly by Visa and its rival card consortia, MasterCard and Europay.

"It would be very easy to try to create proprietary standards. With respect to MasterCard, we have 67 per cent of the market and we could say, the market must come to us. But we are not going to do that," Mr Jensen said.

Sudanese rebels seize southern border

By Mark Huband in Cairo



Sudanese opposition forces said yesterday they had seized control of the country's entire southern border with Zaire and Uganda after capturing a garrison town, and were preparing to attack the government-held city of Juba.

The Sudan People's Liberation Army said it had captured the southern town of Kajo-Kaji, expelling government forces from the states of White Nile and Western Equatoria. An SPLA statement issued in the Eritrean capital Asmara said government forces were retreating towards Juba, within 30 miles of the southern front.

Lt Gen Omar Hassan El-Bashir, Sudan's president, yesterday called upon opponents of the Islamic government to return from exile in neighbouring countries, though without suggesting that their return would lead to any change in government policy.

Sudanese government forces have, since last October, been under attack from an alliance of southern and northern opposition forces grouped under the umbrella of the National Democratic Alliance. The NDA, of which the SPLA is the main military component, also claimed responsibility this week for an attack on government forces close to the Ethiopian border, in which it claimed to have killed 100 government troops.

The NDA this week threatened with violence all foreign companies operating in Sudan, deeming them legitimate military targets. The threat was specifically directed at the Canadian Arakis Energy Corporation which, with Chinese and Malaysian partners, recently signed a 25-year oil exploration deal with the Sudanese government believed to be worth $1bn.

The capture of Kajo-Kaji comes two weeks after the government in Khartoum accused Uganda of launching air raids against its forces in southern Sudan from bases in north-east Zaire. Khartoum accused the Ugandans of assisting the SPLA by using areas of Zaire now controlled by the forces of Mr Laurent Kabila, the Zairean rebel leader, from which to launch the attacks.

The accusation, which Uganda denies, raised the question of whether those behind central Africa's current upheaval are intent upon confronting several perceived sources of instability simultaneously.

By encouraging Mr Kabila's rebellion in Zaire, Uganda and Rwanda have dispersed the Hutu refugees and their Zairean allies, by whom they were threatened. Mr Mobutu Sese Seko, Zaire's president, is regarded throughout the region as having encouraged regional instability, and is now seriously threatened by Mr Kabila's rebellion.

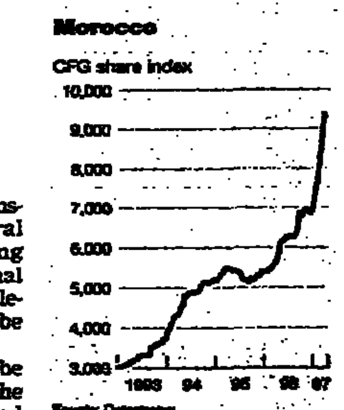
Similarly, by encouraging the northern and southern Sudanese opposition to co-ordinate their efforts, Uganda along with Ethiopia and Eritrea, assisted last year by $20m-worth of US military assistance to these three countries, have also mounted the most significant threat the Khartoum government has yet faced.

By pushing Sudanese and Zairean government troops and Rwandan Hutus away from their borders, Uganda and Rwanda have created rebel-held security buffers in areas which less than six month's ago were the source of their instability.

The NDA this week rejected an offer of mediation made by Sheikh Zaid bin Sultan Al-Nahayan, president of the United Arab Emirates, on the grounds that the Khartoum government should first accept that the conflict is internal. Khartoum has portrayed its increasingly confident opponents as fighting on behalf of neighbouring states threatened by its alleged support for militant groups operating throughout the region.

Casablanca SE seeks to bolster business

By Roula Khalaf



The Casablanca stock exchange in Morocco is set to launch a campaign to convince companies and entrepreneurs of the merits of listing their shares.

Mr Amyn Alami, head of the Casablanca bourse, said yesterday that new listings were an essential element in the Casablanca stock exchange's development.

So far, only three private sector companies have issued shares on the bourse. With 46 companies listed, prices have risen sharply in the past year partly due to a dearth of new issues and a huge increase in assets managed by local mutual funds.

The stock exchange broke a new record high last week. The index quoted by local broker Upline Securities has risen by more than 33 per cent since the beginning of this year.

Crown Prince Sidi Mohammed yesterday inaugurated the new headquarters for the exchange, an important step in its modernisation drive.

The Casablanca stock exchange has been key to promoting Morocco as an emerging market and attracting foreign investor interest. Capitalisation has reached $8.6bn, from $2.4bn in 1992. Over the same period, yearly volume has risen 20 times to $2.2bn.

As the country prepares for the dismantling of tariffs stipulated by the partnership agreement it has signed with the European Union, the bourse is seen as an essential vehicle for companies to raise funds and increase their investments.

Yesterday's inauguration coincided with the introduction of electronic trading to the exchange, a move designed to increase transparency and liquidity. Four stocks have already moved on to electronic trading and the rest will be phased in within the next two months.

In a bid to promote transparency, the bourse is eliminating the over the counter market. Systems are being put in place to ensure the safety and security of transactions, and a central deposit system, long requested by international investors to facilitate settlement of trades, should be ready by September.

"This is when we will be able to say the reform of the bourse is complete and meets the best of international standards," said Mr Alami. While important for attracting investors, the reform of the bourse, say London analysts, must be accompanied by two elements to whet the appetite of foreign institutional buyers, who now account for only 5 per cent of total capitalisation.

The first is a cut in the 0.3 per cent commissions charged on every trade by the exchange. Deemed to be among the highest in emerging markets, the commissions discourage some foreign investors from venturing into Morocco. The second is an increase in the number of listed companies.

Mr Alami said that the bourse has been in dire need of resources to finance its $5m modernisation plans, but as the drive is completed, efforts will be made to reduce the commissions.

"The second phase for us is marketing and recruitment not of investors but of companies," he added. "This year this will be the focus of our actions." Bourse officials, brokers and investment bankers will tour the country in an April road show to meet companies and entrepreneurs and "demystify" the concept of listing on the bourse, as Mr Alami put it.

"This is the only way to develop, for us and for the companies, especially in light of the EU partnership agreement," he said.

More clashes on West Bank

By Judy Dempsey in Jerusalem

Clashes between Israeli and Palestinian forces continued yesterday in the West Bank towns of Bethlehem and Hebron amid growing concern from the European Union and the US that the peace process is on the verge of collapse.

There was little sign that Washington was prepared to step in immediately and salvage the process until Mr Benjamin Netanyahu, the Israeli prime minister, and Mr Yassir Arafat, president of the Palestinian Authority, were willing to return in good faith to the negotiating table.

The Israeli government has continued to insist Mr Arafat gave the green light to Hamas Islamic militants to renew their bombing campaign. But a senior Israeli military intelligence officer said there was so firm evidence to support this.

At a session of the Knesset's foreign affairs and defence committee, the officer was quoted as saying: "We have no information or clear cut evidence that Arafat gave the green light." But he added: "His style, language and body language were understood by terror groups to have given the go-ahead".

The statement will almost certainly embarrass Mr Netanyahu who has repeatedly told several US television networks that Mr Arafat had given the go-ahead for the suicide bomb attack on a Tel Aviv café last Friday in which three women were killed.

In addition, the disclosures by the intelligence services highlight the growing tensions between the military and Mr Netanyahu. The military had warned the government it could expect violence if the Har Homa new settlement project went ahead, just as they had warned the government about the repercussions following the opening of a tunnel exit close to the Al-Aqsa mosque in the old city of Jerusalem last September.

NEWS: WORLD TRADE

Thailand issues 28 new insurance licences

By Ted Bardacke in Bangkok

Thailand's cabinet yesterday approved a proposal to issue 28 new insurance licences, ending a scandal-plagued process that dogged three governments, and paving the way for the gradual liberalisation of the industry.

Thailand has not granted new insurance licences since 1982. In 1995 the former government of Mr Chuan Leekpai bowed to pressure from the World Trade Organisation and decided to open up the sector beyond the existing 13 life insurance companies and 67 non-life insurance companies.

Last year under former prime minister Mr Banharn Silpa-archa, a government committee recommended that 66 new licences be issued but the cabinet did not act on the proposal amid widespread accusations that graft had tainted the selection process. Later, some existing insurance companies were accused of making payments to prevent so many new licences from being issued in an attempt to keep their businesses protected from competition.

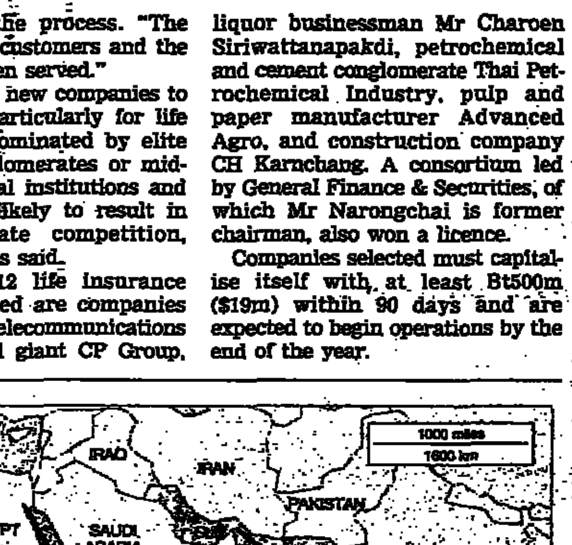
The current government of General Chavalit Yongchaiyudh made the insurance licence issue a "test-case" of transparency in the awarding of government licences. An independent panel including insurance industry experts from outside was set up to review the qualifications of the bidders and pick the winners. "We have selected a healthy list of companies here," said Mr Narongchai Akrasanee, the commerce minister, who oversaw the process. "The best interest of customers and the industry has been served."

Yet the list of new companies to gain licences, particularly for life insurance, is dominated by elite industrial conglomerates or middle-level financial institutions and is therefore unlikely to result in much immediate competition, industry analysts said.

Among the 12 life insurance licences approved are companies controlled by telecommunications and animal feed giant CP Group, liquor businessman Mr Charoen Siriwattanapakdi, petrochemical and cement conglomerate Thai Petrochemical Industry, pulp and paper manufacturer Advanced Agro, and construction company CH Karnchang. A consortium led by General Finance & Securities, of which Mr Narongchai is former chairman, also won a licence.

Companies selected must capitalise itself with at least Bt500m ($19m) within 90 days and are expected to begin operations by the end of the year.

Plans to give Aden a future recall the port's great past



For more than 100 years until 1967, Aden was regarded by shipping companies as one of the world's great natural harbours and busiest duty-free ports. Four civil wars later, it remains Yemen's most valuable asset.

After protracted financial negotiations, a $580m redevelopment scheme is close to being agreed which would also constitute Yemen's first overseas-led privatisation programme.

A deal will largely depend, according to western diplomats in Sana'a, on whether European governments will provide export credit cover for Yemen.

This in turn will be influenced by how much the government of President Ali Abdullah Saleh is willing to restrain Yemeni vested interests in favour of national economic development.

But there is general agreement in both Yemeni and foreign business circles that redeveloping the port could be the catalyst for transforming Aden's run-down industrial infrastructure and for breathing new life into Yemen's economy.

The sole investor behind the plan is Yemen Investment & Development International (Yeminvest), a company wholly owned by Saudi Arabia's Bin Mahfouz family.

Yeminvest proposes to develop the port of Aden on a 25-30-year build-operate-own-transfer basis under a concession agreement with the Yemen Free Zone Public Authority (YFZPA). The agreement was ratified by the Yemeni cabinet last April.

In the first phase, the harbour channels, including a 690m-wide turning area, will be dredged, a new transhipment container terminal on Aden's North Shore will be built and the existing Ma'alla terminal upgraded.

A small 15MW power station is also planned together with basic infrastructure. The Netherlands' Royal Boskalis Westminster is due to start the dredging next month under a contract worth $6m-$7m. Yeminvest's deadline for completion of the first phase is March 1999.

In the second and third phases, a free zone area and a larger power station will be built and Aden's airport at Khormaksar modernised.

Yeminvest is talking to the Port of Singapore Authority about managing the Ma'alla terminal, said Mr Cherif Sedky, Yeminvest director. "We can open and operate Ma'alla and generate revenues very early on," he added.

However, neither a port authority nor the Yemen government would have an equity stake. "There is no public sector involvement," said Mr Sedky.

Talks with the World Bank and its affiliates on financing the $280m first phase "are at an advanced stage", according to Mr Matthias Moser, leader of the project finance team at financial advisers Deutsche Morgan Grenfell (DMG).

According to Yeminvest and DMG, the World Bank has already approved in principle $50m-worth of political risk cover under its Multilateral Investment Guarantee Agency programme.

Its private-sector affiliate, the International Finance Corporation, has given "positive signals" to the idea of taking a small equity stake.

Discussions on limited recourse financing from commercial banks would start in "about three months", DMG said. The process of choosing a main contractor to build the container terminal would also start in about three months.

The viability of the entire scheme could now hang on the response from European export credit agencies that have no formal cover for Yemen, although export credit guarantees are given by some individual European countries on a bilateral basis.

According to Mr Moser, the investors hope to bring in export credit agency co-financing on a project finance basis. "A number of the most important agencies have said they would positively consider this," he declared.

Mr Abdulqader Bajammal, Yemen's deputy prime minister for planning and development, says formal cover with the European Union could be restored at the end of June when the EU council of ministers is expected to ratify Yemen's association agreement with the EU.

Mr Bajammal said Yemen would sign this agreement on April 22. Ratification would put Yemen on the same basis for export credit guarantees as other Middle East and North African countries that already have EU association agreements.

According to senior western diplomats, however, "the ECA process is less straightforward than Mr Bajammal would have it". Individual EU countries will first want to be satisfied about the repayment schedule on Yemen's outstanding bilateral debts.

Port management professionals also want restrictions on the involvement of the YFZPA, which has no experience of port or free zone management.

Western diplomats agree. "The Free Zone Authority is a definite obstacle in the way of the port of Aden development," said one.

Robin Allen

CONTRACTORS STILL SURE OVER REFINERY

A British-US joint venture between Tarmac Construction and ABB Lummus Global remains confident of winning a $500m contract to build a refinery in Aden, in spite of the decision by Yemen's oil and industry ministry to put bids out to re-tender after it had given Tarmac/ABB Lummus a letter of intent, Robin Allen reports. The joint venture bid $180m on a lump-sum turnkey fixed price basis for the first phase of the work. This was the lowest bid from more than 10 international companies.

According to diplomats in Sana'a, the oil ministry's unusual step demonstrates the political uncertainties that confront international companies doing business in Yemen. The oil ministry's decision is reported to have brought a warning from UK-based consultants Kvaerner John Brown that Yemen's credibility on the international market would be jeopardised by the re-tendering.

The ministry is reported to have had second thoughts about the quantity of refined products that would be set aside as security for the $180m finance arranged by NatWest Capital Markets for the first phase of the refinery's construction. Rebids have to be in by 15 April. The contract award is expected in May.

The refinery is to be built at Little Aden near the former BP refinery, now more than 40 years old, and badly damaged in Yemen's 1994 civil war.

According to Tarmac/Lummus's schedule, the first phase, to be completed in 36 months, will comprise a 75,000 barrel a day crude unit to take oil from Kuwait and Yemen's Marib field, and associated sweetening plants. The second and third phases allow for catalytic reformers to further break down the crude plus a 45MW power plant.

WORLD TRADE NEWS DIGEST

R-R and Snecma hold engine talks

Rolls-Royce of the UK and Snecma of France are in talks which could lead to collaboration on a new engine, Sir Ralph Robins, Rolls-Royce chairman, said yesterday.

Sir Ralph told the German-British Chamber of Industry in London that the two companies were talking about co-operating on a new engine for the proposed A340-600, which would be built by Airbus Industrie, the European consortium. The aircraft would be an extended version of the A340, increasing its capacity from 300 to 375 seats.

Snecma has a long-standing aero engine alliance with General Electric of the US. However, GE last month said it had pulled out of negotiations with Airbus for engines for the A340-600, saying the two sides disagreed over how to share development costs. Airbus said it would negotiate with Rolls-Royce and Pratt & Whitney of the US over building the aircraft's engines.
aircraft. *Michael Skapinker, Aerospace Correspondent*

BA-American delay rejected

The US Department of Transportation has rejected a request that it delay consideration of the proposed British Airways-American Airlines alliance until the UK and the US have concluded an "open skies" accord. Mr Charles Hunnicutt, assistant aviation secretary, said that while an open skies deal was a pre-condition for approval of the proposed alliance, bilateral negotiations and investigation of the airlines' deal would take place concurrently.

Mr Hunnicutt rejected a request by Delta Air Lines and TWA, two US airlines, to delay consideration of the alliance. He said the proposed alliance was complicated and would take time to consider. BA and American said in June they planned extensive co-operation and revenue sharing on transatlantic routes. The two airlines have applied to the department of transportation for anti-trust immunity. *Michael Skapinker*

Hungarians sell buses to UK

Hungarian bus manufacturer Ikarus began deliveries of bus bodies destined for London Coaches yesterday as part of an order for 70 buses worth £3.5m ($5.5m) to three British companies. The buses will have chassis fitted by Hughes-Daf in Holland before final delivery.

The Hungarian manufacturer, which supplied the former Comecon countries with articulated buses before the fall of the Berlin Wall, saw orders plummet from 13,500 a year in the 1980s to 850 last year. But new management and restructuring has brought a recovery, and the company hopes to sell at least 2,500 units this year, 2,200 of them for export. *Kester Eddy, Budapest*

BP in Philippine solar deal

British Petroleum has signed a three-year contract worth $30m to set up packaged solar systems in villages across the Philippines. Under the contract with the government, BP Solar will install more than 1,000 systems in 400 villages. The contract will be funded by a concessional loan from the Australian Export Finance and Insurance Corporation. The systems will be manufactured at BP Solar's Sydney plant.

● Sumitomo, the Japanese trading house, has become the first international firm to invest in Tawi Tawi and Sulu islands, the most backward part of the southern Philippine region of Mindanao – a joint venture to set up at least one seaweed processing plant at an estimated cost of $10m. *Justin Marozzi, Manila*

Warning on US power mergers

By Leyla Boulton in Washington

US consumers and small businesses yesterday warned that a wave of mergers by companies preparing for deregulation of US electricity markets could undermine the benefits that competition is designed to give customers.

Some 17 mergers, proposed over the last three years, are still pending and three have been completed.

Consumers for Fair Competition, an alliance of consumer organisations, small businesses, and municipally-owned utilities, demanded increased powers for the Federal Energy Regulatory Commission (Ferc) to police the industry and reject or modify any merger which threatened competition.

The alliance also issued a set of principles aimed at ensuring any deregulation moves by Congress protected the interests of consumers.

In its first foray into an increasingly furious national debate over how to introduce competition into the electricity sector, the group said market players which controlled sufficient resources to frustrate competition should be forced to sell or spin off assets.

For example, Mr Mark Travieso, utility consumer watchdog for the state of Maryland, said he was fighting the proposed merger between Baltimore Gas & Electric and Washington-based Pepco into a company which would supply most of the electricity to the state of Maryland and Washington DC, because he believed it would "thwart" competition.

In its guidelines, delivered to Congress yesterday, the alliance said the transmission network should operate independently of power generators, retailers, or distributors. It called for "effective mechanisms" to prevent cross-subsidies between a company's regulated and non-regulated businesses.

Some believe that Greenspan's rate increase may be the first of many

Fed launches a pre-emptive strike

By Gerard Baker in Washington

By the time the moment finally arrived, at 2.15 yesterday afternoon, no one could complain they had not been warned. For the past six weeks, since the Federal Reserve's last open market committee meeting, Mr Alan Greenspan, chairman of the US central bank, has warned repeatedly the Fed might need to raise interest rates as a pre-emptive strike against inflation. That was precisely what yesterday's 0.25 percentage point rise in the targeted federal funds rate was designed to be.

Greenspan: carried out his threat Reuter

Financial markets reacted calmly to the move. The bond market had heeded Mr Greenspan's many warnings and had largely discounted an increase. More important, the consensus view among economists was that the rise does not mark the beginning of a long series of rate increases.

They appear to believe the Fed is not about to repeat the experience of 1994-5, when it increased rates by a full 3 percentage points over the course of a year. That fierce tightening led to a bond market massacre and also hit equities. Investors are betting instead yesterday's increase represents merely a subtle short-term shift designed to damp down the current strong rate of economic growth.

Are they right to be so sanguine?

The upbeat view rests on the case there is still no obvious sign of inflation in the US economy. Although the current expansion is six years old and unemployment has fallen close to a post-war low, rising cost pressures, which normally accompany such an expansion, are largely absent. Consumer price inflation is just 3 per cent. Producer prices are rising by just 2.2 per cent.

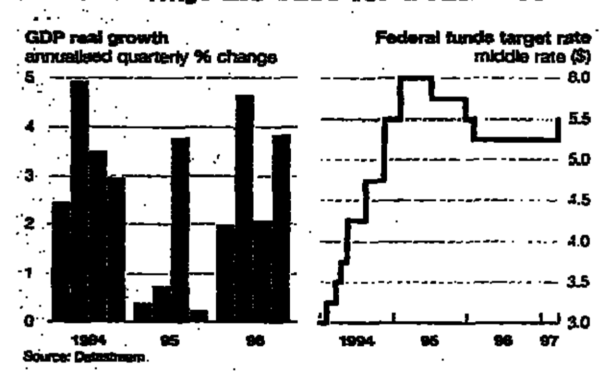
In that context, Fed policy is already restrictive, and following yesterday's move, has become even tighter. The real (inflation-adjusted) Fed funds rate now stands at about 2.75 per cent. On average throughout the business cycle in the past 20 years, the Fed has maintained the real funds rate at about 2 per cent.

In 1994, by contrast, when it raised interest rates for the first time for four years, the real Fed funds rate was close to zero.

Strong growth in the economy demanded a much tighter monetary stance, and the Fed raised rates over the course of the next year to 6 per cent, 3 per cent in real terms, a level that eventually proved enough to bring growth back under control.

If the Fed were to seek a similar monetary policy stance this time, the funds rate is now already close to the level it needs to be in real terms to exercise the same degree of monetary restraint on the economy.

US economy: the case for a rate rise



"Even a single tightening would leave the real Fed funds rate as high as it got in its cycle peak in 1994," says Mr Bruce Steinberg, US economist at Merrill Lynch, the investment bank in New York. But this calculation may prove optimistic.

First, in the past, Fed tightenings have rarely proved to be one-off affairs. Only once in the past 20 years has the central bank increased interest rates once then lowered them at some point early in the future.

More often, the Fed's tightening has been a longer process, involving at least three or four incremental increases. More important, the bullish assessment of the outlook for monetary policy assumes there will be no increase in inflation over the next year or so. The Fed, however, probably thinks otherwise.

Even if the optimists are right and the US economy has been transformed in the past few years in a way that has made it much more efficient and inflation-proof, the current expansion is still too strong. Growth in the current quarter is expected to be about 3 per cent, on top of a 3.9 per cent annual rate in the last three months of 1996. Sooner or later, that pace of growth will reignite inflationary pressures.

"The risk is the economy has now been strong enough for long enough to produce an acceleration in inflation later this year," says Mr Stephen Roach, chief economist at Morgan Stanley, the investment bank in New York. "This week's move should be viewed as the first of many." If that view proves correct, financial markets will be in for a bumpy ride in the next year.

Editorial Comment, Page 21

Mexico setback for injured Clinton

By Nancy Dunne in Washington and Leslie Crawford in Mexico City

President Bill Clinton's ambitious Latin American strategy has suffered a setback with the decision to postpone his first state visit to Mexico and delay trips to Argentina, Brazil and Venezuela until later in the year.

The Mexican foreign ministry said yesterday the visit to Mexico, scheduled to have begun on April 11, had been put back until May 6, so the president would have more time to recover from his knee injury.

It would also allow the healing of relations between the two countries that have been severely strained by the annual US certification of countries deemed to be co-operating in the war against drug trafficking. Mexico's re-certification this year, despite a series of drug corruption scandals, caused outrage among US legislators, while the government in Mexico condemned the certification process as an unwarranted interference in Mexico's internal affairs.

Mr Clinton's plans to visit Argentina and Brazil in May will also be put back until October 1997, scuppering White House plans to build support for an Americas-wide free trade agreement.

When Mr Clinton's Latin American strategy was announced early this year, the aim was to build support for free trade in the Americas in the new Congress, leading to swift passage of "fast track" authority to negotiate trade deals.

However, the White House has been buffeted by the campaign finance scandal and attacks on its trade policy. Ms Charlene Barshefsky has only just won confirmation as US trade representative, and has yet to devise a proposal on "fast-track" acceptable to both Republicans and Democrats.

and and and and ● Mexico's foreign ministry yesterday said it had blocked the donation of European Union funds to an election monitoring group in Mexico because it had not been previously consulted on the matter.

"We were not informed of this project, and the framework of Mexico's co-operation agreement with the European Union requires that all EU-funded projects be approved by a bilateral committee," Mr Javier Treviño, Mexico's under-secretary for international co-operation, said. Mr Treviño admitted the foreign ministry's stance marked a departure from previous government policy, which once welcomed foreign funding of poll monitoring groups.

The Mexican veto against a $400,000 grant to the Mexican Academy of Human Rights has led to protests from the institute in charge of organising elections in Mexico and concern among European MPs.

Dow to fight record libel award

By Richard Waters in New York

A flurry of big libel judgments in the US has just been capped by the award to beat all awards: a ruling that Dow Jones should pay $223m over an article that appeared four years ago in the Wall Street Journal, the company's flagship newspaper.

US legal experts and journalists say that, if the massive judgment stands, it would have a chilling effect on news organisations across the country at a time when the practice of investigative journalism has already come under the public spotlight. To judge by previous cases, though, there remains a strong chance the pay-out order will be greatly cut or thrown out altogether.

The judgment against Dow Jones was handed down by a federal court in Houston, Texas – a region famous in legal circles for the scale of the awards made by its juries. It was a Houston court, for instance, that delivered a $10bn judgment against Texaco a decade ago for intervening in a planned merger of Gulf Oil and Pennzoil.

Dow Jones was last week ordered to pay $22.7m in compensatory damages, and a further $200m in punitive damages, over a 1993 Wall Street Journal article concerning MMAR Group, a Houston-based bond trading firm. The firm went out of business a month after the article appeared, and later blamed the report for driving away its clients and undermining its business.

Among other allegations, the Journal article said that MMAR was to blame for around $50m of losses suffered by one of the bond firm's clients, the Louisiana State Employees Retirement System, and that it was the subject of a regulatory investigation. The jury decided that five out of eight statements it was asked to consider from the article were false and defamatory.

Dow Jones said yesterday that it planned to file a motion before the end of this week asking the judge in the case to set aside the award.

If the judgment is upheld, the company said it would take the case to the federal appeals court.

Recent experience suggests that Dow Jones has a good chance of having the award cut or overturned, said Mr Mike Cantwell, associate director of the Libel Defence Resource Centre in New York.

"These awards very rarely stand up on review," he said. "Nearly 60 per cent of punitive damages awards are thrown out altogether, while only 22 per cent are upheld in their entirety."

Even with a substantial reduction, the award could still go down as one of the biggest ever.

NEWS: ASIA-PACIFIC

Boeing reopens jet trade with China

By Tony Walker in Beijing

Mr Al Gore, US vice-president, yesterday presided over a signing ceremony in Beijing for Boeing aircraft worth $685m. The deal broke a logjam in China's purchases of the US passenger jets.

Mr Gore, the most senior US official to visit China since the Tiananmen Square massacre in 1989, also witnessed the formal signing of a $1.3bn joint venture agreement between General Motors and Shanghai Automotive Industry.

China's go-ahead for multi-billion dollar deals reflects improved Sino-US relations since early last year when Beijing launched missiles into waters off Taiwan in an attempt to intimidate voters in presidential elections.

Mr Gore, whose visit has been overshadowed in the US by allegations of illegal Chinese funding of the Democratic presidential campaign, described his talks with Mr Li Peng, the premier, as "productive and energetic".

He indicated that among subjects discussed was weapons non-proliferation. The US is pressing China to curb arms sales to what it regards as rogue states in the Middle East and elsewhere. "The non-proliferation of weapons of mass destruction is a critical goal of the United States," Mr Gore said.

Mr Li said China had "high respect" for the US, and improved ties "served the interests of both peoples".

Mr Ron Woodard, president of Boeing Commercial Airplane Group, said the Boeing sale reflected an improvement in Sino-US relations. "Both governments," he said, "realise the importance of a stable and open business relationship."

The deal ends a two-year hiatus in Chinese purchases of Boeings and opens up the prospect of further orders for a booming commercial aircraft market which the US company expects to be worth $124bn over the next 20 years.

Air China, the national carrier, will take delivery of its first three 777-200's by the end of 1998. The remaining two are due to be delivered in 1999.

GM and Shanghai Automotive, in a 50-50 venture, will produce Buick Century and Regal cars. The partnership will also build car engines and transmissions.

The venture expects to begin with 100,000 Buicks a year rising to a maximum 300,000. GM hopes the more expensive models will fill a niche in a Chinese market dominated by Germany's Volkswagen Santana.

Air China's decision to buy Boeing 777's will be a relief to the Seattle-based company which has seen Airbus Industrie whittling away its market lead.

Boeing accounts for about two-thirds of China's 400-strong passenger fleet, but Airbus has scored significant successes in the past year, including the $1.3bn sale of 30 Airbus A-320s.

'If you keep on building, you may not be able to sell'

Malaysia warns developers of property glut

By James Kynge in Kuala Lumpur

Malaysia's government issued an unusually blunt warning to property developers yesterday, predicting a glut of office space and falling prices in and around the capital, Kuala Lumpur.

"The [ministry of finance's property] department would like to tell developers that if you keep on building, you may not be able to sell," said Mr Affifuddin Omar, the deputy minister of finance.

In a frank warning, Mr Affifuddin described as "justified" the concerns of some local stock market investors who fear that a property glut could drag down share prices. He said a "slight glut" would appear and office property prices are likely to ease, but he did not give a timescale.

The warning came as the finance ministry reported another bumper year for real estate sales in 1996. Property transactions rose 23 per cent in value to M$49bn ($19.8bn) last year compared to 1995, far outstripping the economy's 8.2 per cent expansion and a 10.4 per cent rise in income per capita.

By the end of 1996, there was an estimated 38m sq ft in office space in and around Kuala Lumpur. This is expected to increase by about 36m sq ft by 1998. The annual take-up rate is about 3m sq ft, officials said.

Officials predicted, however, that many of the office construction projects will be delayed or postponed so as to miss the worst of the oversupply problem.

Developers should be particularly mindful of the effect that the building of Putrajaya, a new administrative capital 25km south of Kuala Lumpur, will have on the property market, Mr Affifuddin said.

Covering 4,400 hectares, Putrajaya will provide offices and housing for about 76,000 civil servants and 59,000 private sector employees when it is fully completed in 2005. But the move to the new capital will start much sooner than that. Dr Mahathir Mohamad, the prime minister, is scheduled to move into his offices in September 1998.

The outlook for retail space, some types of apartment block and hotels is similarly clouded by the threat of oversupply.

There was about 9.3m sq ft of retail space in and around Kuala Lumpur at the end of 1996 but another 9.6m sq ft is already under construction.

Developers signal confidence in HK real estate prospects

By John Ridding in Hong Kong

Hong Kong property developers yesterday signalled their confidence in prospects for the territory's real estate sector, bidding above most forecasts for two residential sites in a government land auction.

Sino Land, one of the territory's big developers, paid HK$11.52bn ($1.5bn) for a 275,000 sq ft site on the east of Hong Kong Island, while China Overseas paid HK$1.4bn for a smaller plot.

"This is a very strong price [for the big site] and suggests the developers are taking a very bullish view of prospects," said Mr David Faulkner, partner at Brooke Hillier Parker, the property consultants.

Other market analysts said the prices paid, and the strong bidding in the auction, showed investors had not been deterred by growing concerns about the high level of real estate prices and possible interest rate rises.

"If you take the big site, then they are paying about HK$5,000 per sq ft for the total development even before a brick has been laid," said one property analyst at a local investment bank. "This is a vote of confidence in the market for the coming years and through the return to China," he added, referring to the transfer of sovereignty on July 1.

Property prices, however, have emerged as a serious political concern over the past few months amid public complaints about housing costs and signs of speculation.

Mr Tung Chee-hwa, the territory's future leader, last week announced the formation of a task force to tackle the problem, while the present administration has announced plans to increase land supply to help ease longer-term price pressures.

Evidence of speculation at the top end of the housing market has prompted warnings of counter-measures from the government and voluntary steps from developers.

These include limits on the number of apartments which can be sold to companies, through which speculators usually operate, and limits on the resale of uncompleted apartments.

Residential prices rose by an average of 24 per cent last year, rebounding strongly from a fall in 1994-95. They have continued to rise this year, but at a slower rate. Office prices have also seen some recovery since the second half of last year.

The rise has swelled government receipts from land auctions and bolstered its reserves ahead of the handover. The government will receive an estimated HK$163bn from land sale proceeds which are set aside and managed separately until July.

Sell-off pledge for Pakistan bank

By Farhan Bokhari in Islamabad

The president-designate of Pakistan's largest public sector bank, Habib Bank, yesterday promised to have the bank ready for privatisation within 12-18 months, in an attempt to cut further losses caused by the build-up of bad loans.

This is the first indication of a time-frame to sell off the bank, the privatisation of which has been on the cards for the past two years but has been consistently delayed.

Mr Shaukat Tareen, a former senior Citibank executive poised to take over as president of Habib Bank within the next few days, said he regarded his two-year secondment as an important national service.

Mr Tareen, present country head of Citibank in Bangkok, is understood to have accepted the job after official assurances over freedom to hire and fire.

He denied rumours in Pakistani banking circles that he plans to fire up to 50 top executives soon after taking charge. His first priority would be to identify "good people" within Habib rather than bring in "hordes" from outside. Other targets include cutting costs and stepping up recovery of loans from defaulters.

Habib is one of Pakistan's three top public sector banks, which are reeling under the burden of almost Rs130bn ($3.2bn)-worth of bad loans. While a breakdown for each institution has not been given, Habib is estimated to be exposed to a third of that amount.

Mr Tareen promised to rationalise the bank but denied he would unveil large-scale lay-offs. He was responding to Habib union leaders' fears of big redundancies.

Bankers in Pakistan say Mr Tareen may be forced to confront unions over workers' generous perks.

Mr Tareen also said Pakistan's unimpressive track record of loan recovery would not discourage him from introducing high-risk products such as car loans and credit cards.

Many Pakistani bankers still remember Mr Tareen during his earlier Citibank tenure when he proved sceptics wrong with an impressive record on debt collections. This was in contrast to debtors at Pakistan's public sector banks, many of whom have defaulted without fear of prosecution.

Dragging India's bureaucracy into a paperless millennium

It's a herculean task and someone wants to do it, writes Mark Nicholson

At 6:30 most mornings Mr Chandrababu Naidu, chief minister of the south Indian state of Andhra Pradesh, flips open his slim laptop and logs the affairs of his state.

From a personal database updated daily by officials, Mr Naidu can click through tables detailing anything from water levels in Andhra's reservoirs to the rate of maths passes at a school in the town of Boothpur.

If something looks amiss, he says, he may take off in a bus customised with a computer projection screen for a surprise visit.

"Once a week I will make a surprise inspection," says the 45-year-old Mr Naidu, who sees his computer-eyed governance as a means to instil "total accountability" into his administration, while hoping to pitch Andhra's bureaucracy into a paperless new millennium.

Anyone familiar with the file-bound warrens of Indian state bureaucracy will realise how ambitious this is.

However, the introduction of information technology is just part of an audacious attempt by India's youngest chief minister to reform his government and re-orient its policies.

It has already caught the eye of foreign investors, and persuaded the World Bank to discuss with Andhra what could become the Bank's first state-level structural adjustment lending programme.

In so doing, Mr Naidu is wrestling with a fiscally ruinous set of populist policies he inherited from his predecessor, the late Mr N T Rama Rao, a movie star-turned-politician from whom Mr Naidu wrested control of the ruling Telegu Desam party in a 1995 palace coup.

Mr Rao swept the regional party – which now forms part of the central United Front government – to power in Andhra's 1994 elections, promising highly subsidised rice for the poor, virtually free electricity for farmers, and a ban on alcohol, to please a strong women's lobby.

The result was bankruptcy. The policies raised subsidies and cut revenues – including from alcohol excise – adding an unaffordable burden on state finances equivalent to 3 per cent of Andhra's total output.

A recent World Bank study of the Andhra economy shows Andhra's poverty alleviation has slowed, spending on infrastructure and social development has suffered, and growth slipped "far below its potential and significantly below the national average".

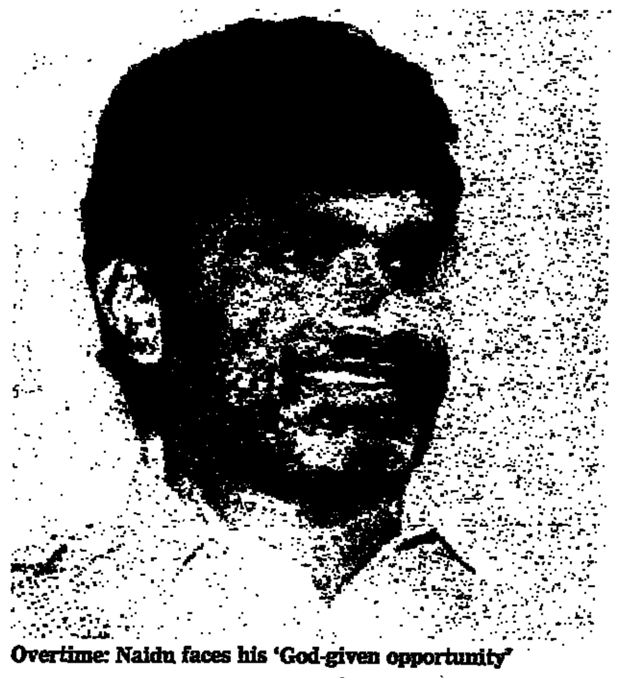
Persuaded the only solution was reform, Mr Naidu approached the World Bank for help, seeking loans worth up to Rs80bn ($2.2bn) to underwrite a sweeping restructuring.

Though such a large package is unlikely, the bank is soon to begin talks with Andhra on providing a package of loans likely to be worth several hundred million dollars.

The loans are expected to focus on moves to enhance government revenues while cutting subsidies (30 per cent of the state's 73m people fall below the poverty line, but 85 per cent receive the subsidised rice).

The bank is also likely to seek cuts in government staffing and reform of the state electricity board, to unbundle it into separate units for generation and distribution and begin the task of depoliticising its uneconomic tariffs.

This bold agenda has impressed investors. Mr Naidu has also begun marketing the state, aiming for the inter-state race for investment prompted by India's five-year-old liberalisation.



Overtime: Naidu faces his 'God-given opportunity'

But the reforms also represent an abrupt and politically dangerous reverse of the promise-all populism of Mr Rama Rao. Mr Naidu has already courted discontent by cutting the rice subsidy and making it known he may soon phase out the alcohol ban.

This month, he also had to contend with streetfuls of farmers in Hyderabad protesting at poor electricity supply during the present harvest, a measure of the task he will face in persuading them that supplies can only improve if the farmers pay more for electricity.

Subsidised agricultural tariffs mean Andhra's farmers use 43 per cent of the state's power but pay just 3 per cent of its cost.

But Mr Naidu, who has three years of his term remaining and a big majority in the state assembly, is betting on Andhra's voters' fatigue with governments which promise but fail to deliver.

He says he has set a target of performance, allied with a grassroots mobilisation modelled on the experiences of South Korea and Malaysia, and which resembles in its appeals to responsibility and community service a south Indian model of "Asian values".

"If you can set a trend, then things will move," he declares. "If you only promise things, people will not believe you."

Not everyone is convinced Mr Naidu's computer-aided programmes will succeed. "Perhaps he is getting a lot of information, but the impact on the administration is so far quite limited," says one local economist.

Mr Naidu, meanwhile, has set himself three years to produce results. "God has given me this opportunity at this age, and I want to put this state on track. So I'm working 17-18 hours a day," he says. Logging on at 6.30am.

ASIA-PACIFIC NEWS DIGEST

Seoul recovery hopes curbed

South Korea's finance and economy ministry yesterday forecast economic growth in 1998 below 6 per cent for a second consecutive year against an estimated 5.5 per cent this year. This would represent the slowest period of growth since 1992-1993 which had a similar rate of 5-6 per cent. The economy grew by 8.9 per cent in 1995 and 7.1 per cent last year.

The prediction, in the ministry's budget proposal for 1998, appears to reduce hopes for a strong recovery in the second half of this year. Mr Kang Kyong-shik, finance minister, has opted for an austere economic policy to cut Korea's record current account deficit of $23.7bn last year and reduce inflation to below 4.5 per cent.

The ministry proposed a 9 per cent increase in the 1998 budget to Won78,000bn ($88bn), the smallest rise in 14 years. *John Burton, Seoul*

Vietnam directors arrested

Police in Ho Chi Minh City have arrested the directors of two prominent private Vietnamese companies on suspected corruption charges, local newspapers reported yesterday.

The moves come only weeks after businessmen and a former director of Vietnam's largest bank received sentences ranging from death to life imprisonment in the so-called Tamexco affair that exposed fraudulent bank lending practices.

The Saigon Times Daily said Mr Tang Minh Phung, director of Minh Phung Garment Company, had been held on Monday for "abusing confidence to appropriate socialist properties".

Police also arrested Mr Lien Khiu Thin, the director of Epco, a diversified company with shared business interests with Minh Phung. *Jeremy Grant, Hanoi*

PNG premier survives vote

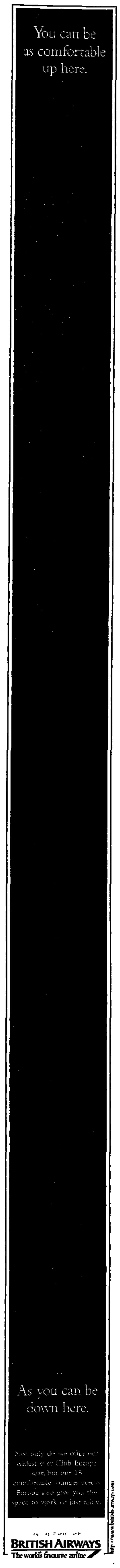
Sir Julius Chan, Papua New Guinea's prime minister, yesterday survived a parliamentary motion calling for him to resign over his decision to call in mercenaries to quash secessionist rebels on the island of Bougainville.

Last night, the Papua New Guinea parliament voted down by a wider than expected margin of 58 votes to 39 a motion calling on Sir Julius and his two most senior ministers to step aside while an inquiry into the mercenaries contract took place. *Nikki Tait, Sydney*

Indian non-banking guidelines

The Indian government yesterday announced new guidelines for foreign investment in non-banking financial services ranging from stockbroking to asset management. The guidelines, which follow a gradual liberalisation of financial services since the early 1990s, outline the minimum foreign investment allowed in non-banking finance companies (NBFCs) such as car loan companies. The minimum investment will depend on the shareholding of the foreign investor in the Indian company.

All proposals for foreign equity investment in NBFCs will also continue to be considered by the Foreign Investment Promotion Board, the government's main review body. *Tony Tassell, London*



Airlines are urged not to abandon limits on compensation for victims

Insurers warn on disaster payouts

By Christopher Adams, Insurance Correspondent

Aviation insurers fear that moves by airlines to abandon limits on compensation for victims of international air disasters will result in a 20 per cent increase in the annual cost of claims.

Five European airlines decided last November to accept unlimited liability, doing away with the 1929 Warsaw Convention principle of limited liability.

Other carriers are expected to follow KLM, SAS, Swissair, Austrian Airlines and Finnair, which all decided to follow the example set by Japanese airlines five years ago.

Mr Barry Wilkes, chairman of the Aviation Insurance Offices' Association which represents the London-based insurance companies market, calculated that the insurance industry might face an increase of up to $300m in annual passenger liability claims if most of the world's main airlines adopted the new principles.

He said insurers would try to extract increases in premium rates from airlines when the next renewal season began in April, but may not be able to do so. "We would like to see some rate rises. But the trend doesn't show there is a possibility of dramatic increases or any increases at all."

Excess capacity in the international commercial insurance market after several years of healthy profits has brought rates crashing down and aviation insurers are feeling the squeeze on margins more than most.

Last year saw the highest number of passenger deaths on record as 1,306 died in accidents involving western-built jet aircraft. The AIOA suggested passenger liability claims could rise from $330m to $800m.

The Valujet crash in Florida last May could cost the industry more than $200m. The cause of the TWA 747 jet disaster off New York's Long Island is not yet known.

Including major hull losses of $479m, and other minor losses of $200m, claims last year were estimated to have risen from $979m to $1.47bn.

The Ariane V rocket, which failed on its maiden flight, was not insured, but Mr Wilkes said the slowdown in the launch programme would affect space insurance premium income.

Oscars crown recovery of film sector

Star performance fleetingly masks enduring weaknesses

When the celebrations subside for the success of *The English Patient* in winning nine Oscars on Monday night, many of the problems of the British film industry will remain.

But yesterday was a day of triumph after the £20m ($31.8m) film, which was spurned by the Hollywood studios and had already taken £40m at the box office, recorded the largest haul of Oscars since *The Last Emperor* in 1988.

Its awards included best supporting actress for Juliette Binoche and best director for Anthony Minghella.

There was disappointment, however, for the other British contenders, *Secrets and Lies*, *Trainspotting* and Kenneth Branagh's *Hamlet*.

Mr Minghella suffered what he called "a nightmarish struggle" to finance *The English Patient* and was rescued by Miramax, a New York offshoot of Walt Disney. In spite of the celebrations, some are warning that the strength of the pound against the dollar may make life more difficult for the British film industry.

The trend has, however, been favourable recently. Some 127 films were produced in the UK in 1996, a 55 per cent increase on 1995, with a big rise in European investment.

National Lottery funds soon to be allocated by the Arts Council may help put the British film industry on a sounder footing.

The council will choose four consortia, each of which could receive up to £39m over six years. The hope is that the money, matched by City funds, could help create a couple of "baby studios" in the UK. But many would accept there is a long way to go if British successes such as Monday's are to be more than isolated events.

The non-British winners included a special effects award for *Independence Day*. Best actor was Geoffrey Rush, who played the emotionally disturbed pianist David Helfgott in *Shine*. Frances McDorman was named best actress for her role as the pregnant police chief in *Fargo*, for which her husband, Joel Coen, and brother-in-law, Ethan Coen, won the Oscar for the best original screenplay.

But it was a bad night for the big studios – the host for the awards ceremony, Billy Crystal, reminisced about the last time he filled the host's role three years ago: "Back then," he said, "the major studios were nominated for Oscars."

Raymond Snoddy


Reuters

Glittering prizes: winning director Anthony Minghella (left) and Saul Zaentz, producer of The English Patient

Systems 'bomb' alert for railways

By Charles Batchelor, Transport Correspondent

The railways face the prospect of an "apocalypse" by 2000 unless they can adjust the 1,600 computers in use to control timetables and train operations to take account of the "millennium bomb", Railtrack warned yesterday. Railtrack is the privatised company carved out of the old national state network to own its infrastructure.

The problem arises because computers normally express the year in dates as the final two digits. This means that when 1999 becomes 2000, computers may be fooled into thinking that they have gone back in time to 1900. Failsafe devices could trigger the shutdown of computer systems or signal excessive intervals in the maintenance schedules for railway equipment.

The dozens of privatised rail companies will need to spend at least £60m ($95m) in testing and modifying their computers, though the final bill may be very much higher, said Sir Robert Horton, Railtrack chairman.

He was speaking at the launch of a campaign to persuade the rail companies to co-operate in dealing with a problem which threatens computer users around the world.

The rail industry is believed to be only the third UK sector – after building societies and banks – to seek a joint solution to the problem.

"There is no industry where computer systems do not play an integral role in the running of business, its efficiency, its productivity and the level of service it offers to the customer," Sir Robert said.

"Nowhere is this more true than on the railway where nearly every function, be it ticketing, the performance regime, customer services, timetabling, allocating train slots, passenger information, modern signalling systems, is dependent on computer technology."

The main areas where problems are expected to arise are systems involving embedded chips such as signalling; performance data collection; security video systems and customer information displays; local area networks and personal computers; Railtrack's bespoke large computer systems; and shared computer systems.

Some systems such as timetabling, which works up to 18 months in advance, will need to be modified by the middle of next year, computer experts warned.

Robot industry 'can be rescued'

By Vanessa Houlder in London

Robots that can ice cakes or help patients who have suffered a stroke could ensure a successful future for the UK robotics industry, a government-sponsored study published yesterday says.

The medical and food sectors should be priorities for the British robotics industry, the study says. The industry has an opportunity to become "a major force" in non-industrial applications *even though it has lost its chance to play a role in the industrial robot market.*

The study was carried out by the British Robot Association, the National Advanced Robotics Research Centre and the Society for Intelligent Land Vehicles and Robotics.

The medical robotics industry has the potential to become "a major wealth-creating activity", the study says, but warns that if the sector is neglected the UK will "soon be merely a substantial importer of expensive foreign equipment in this sector".

There are already about 12 surgical robots in the UK, each costing about £30,000 ($47,700). There are also 100 to 250 rehabilitation robots involved in tasks such as feeding patients disabled by a stroke or helping them to recover skills.

The study urges the industry to pay particular attention to the food sector "as the conditions for the uptake of robotics are in place and there is a significant home market to provide a basis for the development of a supplier industry".

The report says one of the weaknesses of the UK robotics industry *is its lack of* focus. "The most significant problem faced by the robotics sector is that it is multi-disciplinary, making training and funding difficult, and it also covers many sectors, providing difficulties in information exchange and co-ordination".

The study calls for the creation of a representative body to co-ordinate robotics in the UK.

The study also cites the conservatism of robot users as a difficulty faced by robotics companies. Since they are often small companies, they could have difficulty *finding the funds to demonstrate* the effectiveness of their products.

Second Malaysia carmaker on way

By John Griffiths in London

Perodua, the second biggest carmaker in Malaysia after Proton, is to start selling *cars in the UK in August.*

The carmaker's 850cc hatchback, based on the Daihatsu Mira, will be its first model to be sold in Britain and will almost certainly be followed by a range of other Perodua vehicles.

Proton had about 10,000 UK sales last year.

The Perodua hatchback is to be imported by European Motor Holdings, a dealer group with a range of new-car franchises, which is seeking to establish itself as *an importer.*

Mr Richard Palmer, EMH chief executive, yesterday declined to comment on reports that a sole distributor agreement for the small car would extend to other vehicles.

Malaysian vehicle industry insiders say Perodua has ambitions to expand and diversify its model range.

Under the agreement, import and distribution of Perodua's first vehicle will be undertaken by Perodua *Cars (UK), a joint venture* subsidiary in which EMH holds a 50 per cent interest. Mr Palmer would not predict sales beyond 1,000 in the first year.

The cars will be sold through about 50 dealers, all of whom will have core businesses in other franchises.

A name for the model in Britain, which is sold in Malaysia as the Kancil, after a small deer, has yet to be chosen.

Perodua, which makes a *light van at its Serendah* plant near Kuala Lumpur, has capacity for about 50,000 vehicles a year but is seeking to more than double this and to diversify into light four-wheel-drive leisure vehicles and MPVs (multi-purpose vehicles).

BMW results, Page 23

UK NEWS DIGEST

Row over probe into IRA tunnel

The Government was accused yesterday of attempting to mask defects in the prison service which allowed Irish Republican Army convicts in the top security Maze Prison in Northern Ireland to dig a 30m escape tunnel.

The Prison Officers' Association claimed on Monday, after the escape tunnel from one of the prison's "H-blocks" was discovered by chance, that IRA "commanders" in charge of the cell blocks dictated when and where prison officers could search. The blocks are shaped like a letter H.

Politicians and prison officers yesterday condemned the announcement by Sir Patrick Mayhew, chief Northern Ireland minister in the British government, that a senior government official in the region was to head an inquiry into the escape attempt. They said it was the policy of the UK government's Northern Ireland Office which had created the regime under which the prisoners had the freedom to make their escape attempt.

Sir Patrick said his Director of Security, Mr John Steele, would head a four-week investigation and report back to him. Mr Steele is a former Controller of Prisons in the region.

But Mr Peter Robinson, deputy leader of the anti-nationalist Democratic Unionist party, said the Government was engaged in a cover up. An internal Northern Ireland Office investigation would be "a sham and a scandal".

■ ECONOMIC GROWTH

Adviser predicts 1998 slowdown

UK economic growth will suffer a "substantial slowdown" next year as the next government will be forced to raise interest rates after the election, a member of the panel of six "wise people" advising the chancellor of the exchequer warned yesterday.

Ms Bridget Rosewell, executive chairman of Business Strategies, the economic consultancy, and a member of the panel, said parts of the economy were already overheating. High growth rates in Greater London and south-east England were stoking up problems for future years.

A Business Strategy report on Britain's regional economy, published today, suggests that the current boom is being driven by consumer-spending, which in turn is likely to be reinforced by stronger growth in real earnings, low inflation and falling unemployment.

Growth conditions in Britain remain uneven, says the report. Greater London is on course to achieve the highest rates of economic growth in the country – up from 3.4 per cent last year to a forecast 4.2 per cent in 1997. At this level London is close to its boom years during the mid-to-late 1980s. In the north of England, by contrast, growth is low and falling – down from 2.0 per cent in 1996 to 1.7 per cent in 1997. *Wolfgang Münchau*

Between boom and bust, Page 21

■ MANUFACTURING

Capital spending down by 8%

Capital expenditure by manufacturing industries in the fourth quarter was down by 8 per cent to £2.88bn ($4.6bn) compared with the fourth quarter of 1995, but was little changed on the previous quarter, according to revised figures from the Office for National Statistics.

The strongest increase came in the construction sector followed by services, while investment expenditure growth in manufacturing lagged behind. The ONS also yesterday released data for total stocks in the production, construction and distribution industries in the fourth quarter, showing a rise of £580m on seasonally adjusted 1990 prices after a decrease of £836m in the previous quarter. *Wolfgang Münchau*

■ TELECOMMUNICATIONS

Watchdog lowers call costs

The cost of calling mobile phones from a fixed network is set to fall sharply after an investigation by Mr Don Cruickshank, the telecoms watchdog.

Mr Cruickshank said that the price of calls from British Telecommunications to the mobile operators Vodafone and Cellnet were too high "mainly because they charge too much for delivering calls to customers on their networks".

Calls to mobile phones from fixed phones almost always originate on BT's network, which is universal throughout the UK, or from operators using BT as an intermediary. Vodafone and Cellnet have been free to negotiate prices with BT for delivering calls.

"When we started this investigation, calls to Cellnet and Vodafone cost around 38 pence (60 cents) a minute," Mr Cruickshank said. "During the investigation the cost dropped to 32 pence. In my view, the average retail rate to call a mobile network from a BT phone might come down by another 10 pence a minute."

If prices are reduced to the levels he wants, Vodafone and Cellnet's revenues might be reduced by about £50m a year each, he said. *Alan Cane*

■ SHIP REPAIR

Yard announces $4.7m expansion

Cammell Laird, the shipyard in north-west England where famous vessels such as the aircraft carrier Ark Royal were built, yesterday announced its largest expansion programme since being acquired by a new management team two years ago.

The company said it was investing £3m ($4.77m) to reopen two dry docks which have been derelict since the early 1980s.

The plan to renovate the dry docks follows a sharp upturn in ship repair activity. Flexible labour and the end of old working practices, meanwhile, have enabled UK yards to undercut rivals elsewhere in Europe. *Tim Burt*

Long-term deals may threaten annual pay ritual

By Robert Taylor, Employment Editor

A recently negotiated three-year deal covering 1.5m local government workers may be the start of a growing trend that could bring the traditional annual pay agreement into question.

"There is a move in the direction of longer-term deals and those we have seen, particularly in the pace-setting auto industry since 1995, have helped in the recovery by keeping down pay pressures", said Mr John Cridland, human resources director at the Confederation of British Industry, the country's largest employers' lobby.

Incomes Data Services, an independent research organisation, is keeping a close watch on what appears to be the increase in the number of long-term agreements. It has found a number of recently negotiated deals which last for more than 12 months. Among those involved are:

● Nissan, the Japanese vehicle company, which negotiated a two-year deal with the AEEU engineering trade union in January for its 4,300 employees, with a 4.5 per cent pay rise in the first year and 3.75 per cent or the inflation rate in 1998.

● Smiths Industries, which agreed a deal for 350 skilled engineering workers and staff at its Cheltenham operations to last until September 1998, with a 4.5 per cent rise in the first year.

● University lecturers and related staff who have reached a two-year pay agreement.

● Gallaher, the tobacco company, has negotiated a two-year deal for 2,000 hourly-paid employees, with 3.5 per cent in the first year, followed by a retail price index rise plus 0.5 per cent in the second.

● Claremont Garments, a clothing supplier for the Marks and Spencer store chain, has reached a two-year agreement for its 3,000 workers in north-east England, with a 4.2 per cent rise from January this year and 4 per cent from January 1998 plus 3.5 per cent incentive pay.

● Tuckner Fasteners, a company in Birmingham, has made a deal for two years from January 1997 for a 3.75 per cent rise and a further 3.5 per cent from January 1998.

● Some 8,500 workers in the vehicle building and repair industry have a two-year agreement for a rise in minimum rates of 7.9 to 9.1 per cent from this January, and a 3 per cent basic rise with a 3.5 per cent minimum rate increase, or the rate of inflation, from next January.

Some deals exceed two years. Blue Circle Cement has a five-year agreement with 124 distribution drivers, which includes a promise of job security. A similar deal for the rest of its workforce has yet to be agreed.

PowerGen, the former state-owned utility, has recently negotiated a three-year agreement for its 7,700 employees, which involves a 5 per cent pay rise from April followed in 1998 by the equivalent of the February retail price index plus 0.75 per cent, and in 1999 by 5 per cent or the retail price index plus 1 per cent.

Other deals for more than two years include those at Honeywell Control Systems, the Vauxhall offshoot of General Motors, Royal Ordnance, London Underground, United Distillers, shipbuilders Kvaerner Govan, Scottish and Newcastle Breweries and a BICC Cables unit. The two-year agreement has also become common in the privatised utilities of gas, water and electricity.

Mr Alistair Hatchett, editor of Incomes Data Report, is cautious about reading too much into such longer-term deals. "Possibly they are no more than about one in ten agreements", he said. But he believes the arguments in favour of their introduction are attractive for companies as a means of cost control.

Longer-term deals became a tempting option for some companies in the 1980s after the end of the period of national incomes policies and high inflation which had discouraged such a development for nearly 20 years.

The opposition Labour party's industrial relations policy was thrown into confusion yesterday when party leaders appeared unsure of the details of their proposals to reintroduce statutory trades union recognition, John Kampfner and Robert Taylor write.

In Labour's first stumble of a hitherto flawless national election campaign, Mr Gordon Brown, the chief *finance spokesman,said it might be for* judges to determine whether most workers in a whole company – or only a section of it – could opt to restore collective bargaining rights.

Hours later, Mr Robin Cook, the foreign affairs spokesman, said the issue would be determined by the Central Arbitration Committee, an obscure body established 22 years ago.

The Conservatives exploited the difficulties by warning that Labour's union reforms would open the floodgates to "licensed industrial blackmail". Mr Michael Heseltine, deputy prime minister, said Labour's plans would lead to new demarcation disputes, with unions fighting each other again within companies. Labour officials acknowledged that the party had wanted to leave the detail of future legislation on unions until after the election.

NEWS: UK

Nation 'is not ready to join' but 'should not frustrate formation of a core euro zone'

Top banker warns on monetary union

By George Graham, Banking Correspondent

One of the UK's top bankers yesterday warned against the potentially disastrous consequences of pressing ahead with European monetary union without much greater economic convergence than has yet been seen.

Mr Martin Taylor, chief executive of Barclays, said the UK should not frustrate the formation of a euro zone incorporating Germany, the Benelux countries, Austria and France, but was not itself ready to join because its economic cycle remained unsynchronised with the rest of Europe.

"Britain should not go into Emu in the foreseeable future because no-one knows at what rate it should do so. You could pick – and justify – any number between DM2.20 and DM2.90," he said.

For the governments of southern Europe, Mr Taylor added, a premature monetary union at too high an exchange rate was "more likely to impede the great progress they have made, and may even ruin some areas."

While he is not aligned with any political party, it is known that Mr Taylor's views are taken seriously by Mr Tony Blair, leader of the opposition Labour party, and other senior Labour figures. Moreover, his comments, delivered in a lecture last night, place him at odds with some of his competitors in the Emu debate.

Lord Alexander, chairman of National Westminster Bank, has argued, for example, that the creation of the single European currency is too important an event for the UK to risk being left on the sidelines by deciding not to join.

Mr Taylor urged European politicians and central bankers to "stop fooling themselves and fooling the people," and "have the courage either to go forward with a small euro zone or to postpone the project altogether."

● Mr Malcolm Rifkind, the foreign secretary, yesterday thrust Europe to the centre of the general election campaign by warning EU member states that Britain would veto progress towards institutional reform if they pursued a common policy on immigration, John Kampfner and Robert Peston write.

Mr Rifkind, before leaving for Rome to mark the 40th anniversary of the Treaty of Rome, suggested that the UK government was prepared to use its veto in the final stages of negotiations at the inter-governmental conference, due for completion in Amsterdam in June.

"There is no way we are going to transfer responsibility, for example, on a controversial issue like immigration, to majority voting under the Council of Ministers with the ultimate decision by the Commission and the European Court of Justice," he said.

The immigration policy of the Conservative party if it won the election would continue to be one of "sustaining fair, firm, compassionate control", Mr John Major, the prime minister, said yesterday during a visit to the English Midlands city of Birmingham with his wife, Norma. "We have seen the most immense improvements in race relations in this country and I intend that those improvements shall continue. What I am not prepared to see is this issue arise as a partisan political issue"

UK ELECTION DIGEST

US-style 'drug tsar' proposed

A Labour government would appoint a US-style "drug tsar", Mr Tony Blair, the party leader, announced yesterday. "In the States, such a figure has had substantial success; we can do the same here and so help to avoid Britain becoming as scarred by drugs as the US has been," Mr Blair said while campaigning in the Scottish city of Aberdeen.

The first US "drug tsar" was Mr Bill Bennett, a former education secretary appointed to the drug post in 1989 by President George Bush. Mr Blair's appointee would have the same job of co-ordinating the work of government and local agencies. He would report to a committee headed by a cabinet minister.

"I want this person to take a cool, hard look at the present operation and urgently draw up a strategy to tackle drugs with renewed vigour," said Mr Blair.

Mr Ian Oliver, chief constable of Grampian Police in Scotland, welcomed the idea. "Throughout Scotland there are 100 drug-dependent babies born every year, which is staggering," he said.

But Mr Michael Howard, home secretary in the Conservative government, said later on BBC radio: "We've seen a presentational gimmick from Labour. We have a co-ordinated strategy. When we produced it, quite a short time ago, the head of Scotland Yard's drugs squad described it as 'stunning' compared with other drug strategies across the world, the best he'd ever seen."

■ WELSH NATIONALISTS

'Nation needs voice in Europe'

The Westminster system of governing Wales had broken down, Plaid Cymru, the Welsh nationalist party, said at the start of its election campaign yesterday. "Wales needs a parliament to bring our services under democratic control and give our nation a voice in Europe," said Mr Dafydd Wigley, leader of Plaid Cymru, which is Welsh for "party of Wales".

"The outgoing Tory Government showed their contempt for Wales by appointing MPs from English constituencies as secretary of state [chief minister] for Wales four times in succession." He added that Labour, the largest opposition party in Britain, intended to treat Wales as a "second-class country" by denying it the lawmaking powers which a Labour government would give Scotland.

■ SMALL BUSINESSES

Mixed signal on minimum wage

Senior executives at the Federation of Small Businesses are pressing ahead with opposition to the Labour party's proposals for a statutory national minimum wage in spite of a clear vote by members in support of the policy with regard to the pay of unskilled adults.

The federation, which represents 96,000 businesses, will today spell out its "opposition to intervention in the setting of wage levels by an outside body".

But a motion, put to the federation's annual conference at the weekend by one of its London branches, seemed to indicate a different mood among members. The motion, which referred to the desirability of "a sensibly negotiated minimum wage level for unskilled adult workers", was carried by 23,727 to 18,473. Mr Stephen Alambritis, the federation's spokesman, acknowledged that "we were very surprised by the vote".

Katharine Campbell

Documentary evidence of party promises

Election manifestos are not best-sellers, but they matter enormously, says **David Butler**

Next week the Conservative and Labour parties will simultaneously launch their manifestos. They are guaranteed full media coverage for long, turgid documents full of boasts and promises.

These pronouncements will make some headlines but, except in the rival party research departments, will be very little read (the sale of the Conservative manifesto fell from about 125,000 in the 1950s to some 70,000 in 1992). Unless the manifestos contain gaffes – factual errors or uncosted promises – they will have little effect on the campaign argument or the election outcome.

Yet manifestos matter enormously. A great deal of effort goes into their content and presentation. The party elites are earnestly engaged in defining themselves in terms they think will prove attractive to the electorate. In the past their drafting has led to spectacular and well documented battles between the headquarters staffs of the Labour and Conservative parties and the offices of the party leaders.

Manifestos involve commitments. They provide a point of reference, as well as a source of quotation, for the whole of the next parliament, and they will be used in evidence at the election which follows it.

The Labour party's 1945 promise to nationalise the iron and steel industries was later used to push a reluctant cabinet into carrying through a policy about which it had become very doubtful

In 1964 the Conservatives could boast that they had taken action on 93 of the 94 specific promises made in 1959. During the post-1945 Labour government, the party's 1945 promise to nationalise the iron and steel industries was used to force the cabinet to carry through a policy about which its members had become extremely reluctant.

The House of Lords, the unelected upper House of Parliament, has long paid lip service to the doctrine that it should not reject any manifesto measure which the British people had, by implication, endorsed in a general election. This may be very important before 1997 is out.

Of course, every manifesto contains a host of empty words. It expresses noble aspirations and virtuous principles which are beyond implementation. Aspects of life are to be "improved", "reinvigorated" or "actively pursued". At the last general election in 1992, the Conservatives wrote: "Our aim is to enhance the life of the British people," while Labour declared: "We will create a new sense of community and social cohesion."

At the Conservative central council meeting earlier this month I watched Mr Brian Mawhinney, the party chairman, unveil this year's slogan: "You can only be sure with the Conservatives." I am certain it was well tested, but one must have doubts when one looks back at past manifesto titles devised by the copywriters.

Here are some recent examples: 1992 – The Best Future for Britain (Con); Time to Get Britain Working Again (Lab); Changing Britain for Good (Liberal Democrat). 1983 – The Challenge of Our Times (Con); New Hope for Britain (Lab). After that, one appreciates the simplicity of the title in the year Mrs Margaret Thatcher won office for the first time – The Conservative Manifesto, 1979.

But none of these crafted labels entered the vernacular or changed a campaign. The Conservatives, recognising that the manifesto launch is a one-day wonder quickly swamped by other news, have in the past taken steps to extend the impact of its contents. From January to March 1992, Mr Chris Patten, then chairman of the Conservative party and now the last British governor of Hong Kong, orchestrated a "near-term campaign" of successive policy announcements. That tactic has been echoed in the past two weeks with the government's unveiling of initiatives on pensions and social policy.

But the manifestos themselves – or at least that of the winning party – will probably matter more as weapons in the inter-party – and intra-party – fighting during the next parliament than as inducements for people to change the way they vote in this election.

David Butler is a psephologist and fellow of Nuffield College, Oxford.

BANKING FINANCE & GENERAL APPOINTMENTS

RECRUITMENT

Robert Taylor on conflicts in the workplace as companies respond to greater competition

Strained relationships

Relations between employers and employees in the US are going through a "far-reaching" transformation in response to corporate restructuring, says a book* that should become required reading on both sides of the Atlantic.

Edited by Professor Peter Cappelli of the Wharton business school at the University of Pennsylvania, it examines what is happening inside the US workplace. And it highlights the conflicts emerging as companies respond to increasingly competitive product markets.

For most US employees from senior management down, the "new" pressures have brought increasing job insecurity, widening income inequalities, declining workplace morale, rising stress and longer working hours.

As a result, the comparatively stable and secure system of employment relations based on permanent jobs, commonly accepted and negotiated rules of workplace custom and practice and detailed job classification that characterised the 20th century US workplace looks unlikely to survive. And since much of what is happening to workers in corporate America is now spreading to the rest of the world, Cappelli's volume should be of great interest to everyone involved in the organisation of employment.

The book is particularly lucid in analysing what it sees as the fundamental contradiction at the heart of modern employment systems. As the authors explain: "The new model (based on team-working) makes individual employment relationships more sensitive to market forces.

"Pressures from the product market are brought inside the company to employees by making compensation and job security contingent on organisational performance. Pressures from the labour market manifest themselves through hiring from outside, career development increasingly across (rather than within) organisations and greater use of contingent and contract labour. These changes push more of the risk of doing business onto employees at the same time that changes in work organisation are demanding substantially more from them."

In other words, employers are relying for corporate success more and more on the abilities of their empowered employees to improve their company's performance. And they are asking for greater trust and loyalty in the workplace to achieve this.

> New pressures have brought increasing job insecurity, widening income inequalities, declining morale, rising stress and longer hours

Yet employers are quick to downsize their workforce in reaction to market pressures and the demands from their shareholders for a higher return. Inevitably employee commitment to an employer is bound to weaken under the often painful circumstances of restructuring.

So what can be done about the resulting conflict between the competing needs of employee commitment and employee flexibility? One option would be legislation to prevent or at least slow the pace of corporate downsizing by strengthening employment protection laws. However, if this impaired innovation and competitiveness, it would ultimately be damaging to employees' long-term interests.

Another option would be to encourage employees to help themselves in enhancing their labour market value – through training, for example. But there is little incentive for an employer to train workers in different skills if they can then leave for a better paid job.

"The incentive to train erodes as attachment to employers declines because of the difficulty in earning a return on training investment," say Cappelli and his colleagues. To avoid expensive in-company programmes, training will have to be less tailored to specific company requirements or more use made of outsourcing to meet skill needs.

The book fails to suggest any public policy initiatives that might help resolve the conflict between the need for commitment and the requirement for corporate flexibility. The authors suggest there could be a return to "the old employment relationship" or an encouragement of incentives such as a greater portability in pensions and healthcare cover to mitigate the impact of workplace restructuring.

In Europe different ways of handling change in the workplace may be possible, perhaps based on company-based works councils or advisory and consultation committees. In the UK the extension of health and safety committees to non-union companies could be encouraged. A diversity of forms of stakeholding from employees on the company board to wider capital and share ownership are also possible ways forward.

It might also make sense to encourage employees to improve their labour value or employability, career development and knowledge of the recruitment market, using trade unions, public and private employment agencies as well as voluntary associations. Such a diversity of voluntary bodies in the labour market could mediate and accommodate the tensions between the desire for employee security and the need for companies to exercise flexibility.

Deregulation

The UK has always had a much more deregulated labour market than other European countries. The trend did not start in 1979 when the Conservatives were elected, as a recent study published by the Centre for Economic Performance at the London School of Economics reminds us.**

Part-time jobs accounted for 16.1 per cent of those in employment in 1979 and 22.1 per cent last year. It is true the proportion of full-time employees fell from 76.7 per cent 18 years ago to 65.2 per cent in 1996 but the pace of decline eased after 1984.

The most significant change in the jobs market has been the growth in full-time self-employment – from 6.5 per cent in 1979 to 10.2 per cent by 1996. This trend is not apparent elsewhere in Europe but even that has slowed since 1990.

Moreover, employment regulation has grown in the UK since 1979 when it comes to individual employment rights, mainly due to European Union influence.

As Mr Peter Robinson at the Centre for Economic Performance concludes in a paper at a conference in Edinburgh this week: "When compared with the immediate past and the experience of previous decades, the UK labour market in the last decade or so has not seen employment shifts which are dramatically out of line with historical experience."

**Change At Work: How American industry and workers are coping with corporate restructuring and what workers must do to take charge of their own careers. by Peter Cappelli and others. Oxford University Press. £25.95.*

***Just How Far Has the UK Labour Market Changed? Flexible Employment and Labour Market Regulation. Centre for Economic Performance. LSE. Houghton Street, London WC2A 2AE.*

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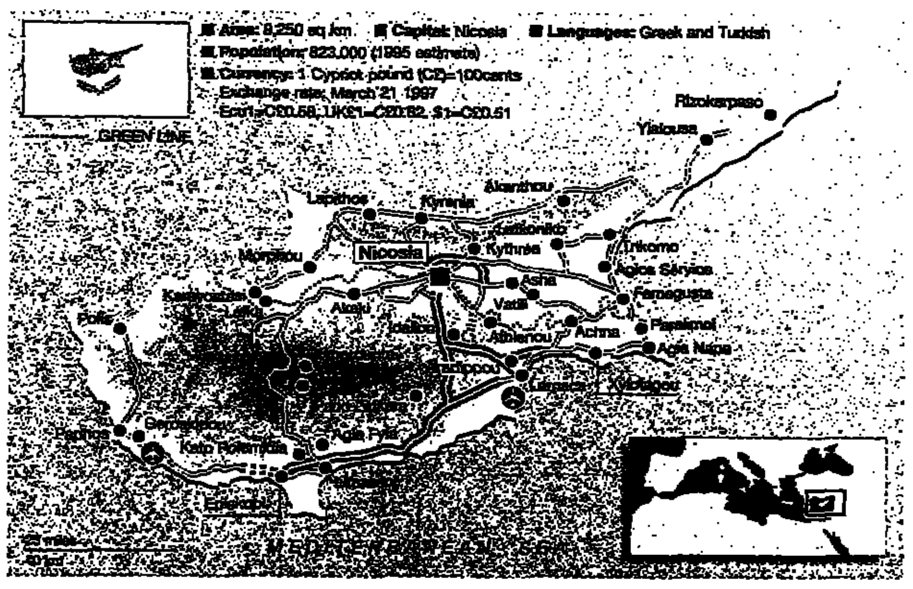
Cyprus

Greek and Turkish ambitions in Europe could help solve an issue that has defeated world leaders for 20 years. In the first of nine articles on the island, **Dominick Coyle** looks at the chances of a Cyprus settlement

EU talks raise hopes of peace

Still waters? Outward calm disguises the fact that the island has more artillery per capita than virtually anywhere in the world *Tony Stone*



Given its size, a mere 9,250 sq km, it is extraordinary how often the Mediterranean island of Cyprus makes international headlines.

The big story now is its assembly of military fire power that, on a per capita basis, is virtually unequalled anywhere in the world.

Mr Malcolm Rifkind, British foreign secretary, recently described the number of troops and the quantity of weapons on the island, divided between Greek and Turkish Cypriots since 1974, as "absurdly, dangerously high", and appealed for a halt to further arms procurement. Similar sentiments have come from the Clinton administration in Washington.

Over the next few weeks Mr Kofi Annan, secretary-general of the United Nations, is expected to launch a renewed Cyprus peace initiative, supported by Washington, London and Moscow, and by the European Union in Brussels.

Britain's special envoy Sir David Hannay, has been working hard in Athens, Ankara and Nicosia to secure agreement on ground rules for fresh talks. These would be in the context of wider relations between Greece and Turkey, and also their relationships with the European Union.

It is easy to ask what is new. Achieving a peace settlement has long defeated the international community. People who have tried their hand at, or put their name to, a Cyprus settlement plan include Mr Cyrus Vance, Mr Perez de Cuellar, Mr James Callaghan and the former Canadian premier, Mr Joe Clark.

This time, though, there is a little hope. It stems largely from the agreement that accession talks for full EU membership for Cyprus should start within six months of the end of the Inter-Government Conference (IGC) on the Maastricht Treaty. The conference is scheduled to end at the same time as the Dutch EU presidency in June.

In practical terms detailed peace talks are unlikely before the presidential elections in Cyprus in February 1998. More immediate, are "talks about talks" – preliminary exchanges between all parties to determine whether negotiations next year would have any prospect of succeeding.

Soundings have explored the possibility of establishing a multinational military force, mandated by the UN Security Council. This would reinforce an eventual political settlement along federal lines in a largely de-militarised island.

The hope is that EU accession negotiations will go hand-in-hand with internal peace talks. This "linkage" is now taken for granted in Cyprus, although it is not acknowledged officially.

The Greek-Cypriot president, Mr Glafcos Clerides, rejects the concept of what he terms a double Turkish veto. He asks why Turkey should be able to block an internal settlement in Cyprus and also threaten to veto any enlargement of Nato unless it, too, can gain full EU membership.

Greece, for its part, threatens to block EU expansion to eastern Europe unless Cyprus gains full membership.

Cyprus has long been a focus for the historical conflict between Turkey and Greece. The issue came to a bloody head in July 1974 when Turkish troops invaded the northern part of the island. This followed a coup, planned in Athens, against the Cypriot government under its first president, Archbishop Makarios. The aim was to bring about *Enosis*, the union of Cyprus with Greece.

Turkey's invasion had a legitimacy under the tripartite agreement between Ankara, Athens and London which formed part of the package that gave Cyprus independence from Britain in 1960. Turkey had the right to intervene to restore the status quo but in exercising it took almost 40 per cent of the island and prompted some 200,000 Greek-Cypriots to become refugees in the south.

The island is now divided. There is virtually no contact between the two communities and fear on both sides. The authority of the Clerides government stops at the partitioning "green line" that meanders east-west through the island for 180km.

Behind this no man's land, policed by a 1,200-strong United Nations force, both communities are updating their military hardware.

The Clerides government, which has a defence pact with Greece, has ordered Russian surface-to-air missiles. The president says this artillery – which will not arrive in the island for at least a year – is for defensive purposes only but the suspicion must be that his government is planning to try to match the superior military in the north, in advance of new peace negotiations.

If the missile deal makes world headlines, as it did in January, so much the better say many Greek-Cypriots. They argue that it will concentrate minds in Washington where the leverage lies to pressurise the Turks to agree to a Cyprus settlement.

The irony is that an outline peace package has been on the table for years, based on a bi-zonal, bi-communal federal structure with a relatively weak central government. Mr Clerides has agreed it in principle with the Turkish-Cypriot leader, Mr Rauf Denktash, although the latter's stance appears to have hardened in recent years.

Mr Denktash proclaimed the Turkish Republic of Northern Cyprus in 1983. It is recognised only by the government in Ankara, which extends considerable economic support and maintains the presence of some 30,000 Turkish troops.

The devil of any final settlement is in the detail. Issues to be resolved include the sovereignty of the central government and the powers of the bi-zonal regimes. Could refugees from the north go home after 23 years, assuming they wanted to? How much land should the Turkish-Cypriots control, given that they represent less than 20 per cent of the population but occupy almost 40 per cent of the territory, and who will control law and order.

The overlying question, however, is who will enforce any eventual settlement, so that both communities can feel secure? The presence of a large Turkish military garrison in the north unnerves Greek-Cypriots. However, it is hard to see any government in Ankara dropping its existing intervention rights under the Treaty of Guarantee agreed at independence.

As ever in the events of Turkey, the armed forces will have the final say. They are concerned at the rise of fundamentalism under the Islamist government of Mr Necmettin Erbakan and see themselves as the guardians of the secular republic created by Ataturk.

They have a European orientation and a strong commitment to Nato.

It is possible that the Turkish military could take a wider view than the politicians of the geopolitical situation across the entire Mediterranean area.

Apart from the Cyprus issue, Turkey has many quarrels directly with Greece – over disputed air space in the Aegean, the ownership of dozens of tiny islands, oil-drilling rights, for example.

Turkey also aspires to full EU membership and last week EU foreign ministers, speaking through the Dutch presidency, said "Turkey is... recognised as having a European future and will be judged on the same basis as other [applicant] countries."

The new Greek government of Mr Costas Simitis has been sounding more moderate on Cyprus and other areas of Greek-Turkish dispute. (Not all of his ministers, however, share his apparent moderation – particularly the foreign minister, Mr Theodoros Pangalos, whose deputy, Mr Christos Rozakis, resigned two months ago, apparently bowing to pressure that he was too soft on relations with Turkey.)

It is conceivable that events in Greece and Turkey, and the countries' respective ambitions in Europe and shared membership of Nato – coupled with a serious US diplomatic initiative – could provide the climate for a settlement package.

There have been false dawns before, but the military build-up on the island is in the interests of no party. The deaths last year of two Greek-Cypriots on the green line and the subsequent shooting of a Turkish-Cypriot soldier, illustrate clearly what a tinder-box the outwardly calm island could become.

PROFILE The President

Unifying force in divided land

Few doubt the ability of Glafcos Clerides to sell any eventual peace settlement to the public

Political argument in Greek Cyprus tends to be more about methodology than ideology, especially when it comes to the so-called "national question" – the division of the island following the Turkish invasion in 1974. Everyone wants a settlement; the only debate is about how it should be achieved. But even differences about the details tend to disappear when discussing the president, Mr Glafcos Clerides, whose current term of office ends early next year.

The view that the forthcoming round of intense international diplomacy will bring peace and remove the Turkish occupying forces from the north is sadly probably a minority one, shared by a few optimists only. But the belief that Mr Clerides is just about the only politician who could sell any eventual settlement – inevitably a compromise between the opposing communities and their sponsoring governments in Athens and Ankara – to the electorate is almost universally held.

A natural conciliator, Mr Clerides is an old and generally trusted hand in Cypriot politics who has little to lose in personal political terms, given that he will celebrate his 78th birthday next month. He certainly has his enemies in Cypriot party politics, but few critics dispute that his signature on any agreement for the divided island would represent the best prospect of any settlement being endorsed in the referendum he has promised.

The president has yet to decide whether he will seek re-election next year. He says there are two issues that may influence his decision: his health; and whether there are signs that serious negotiations towards a settlement will get under way in 1998.

Mr Clerides is satisfied on the health question. Although he admits to liking his food, he no longer smokes heavily.

He is less inclined to air his views about the likelihood of peace but says that there are four months remaining in which to determine the prospects for the current intensive diplomacy.

The deadline for candidates for the presidential election is likely to be July or August, and Mr Clerides assumes there will be other candidates. If the chances of serious peace negotiations seem slim, Mr Clerides might quit.

The son of an eminent Cypriot barrister, Mr Clerides was born in April, 1919. He served in the Royal Air Force, and studied law in London as did the Turkish-Cypriot leader, Mr Rauf Denktash. The two men remain personal friends but are fiercely divided on the national question.

Clerides was appointed Minister of Justice during the transitional period from British colonial rule to independence in 1959 – 60. Elected to the House of Representatives in July, 1960, he served as president of the chamber for 16 years.

He has led the Greek-Cypriot delegation at various peace conferences with the Turkish-Cypriot minority, and acted as president when the late Archbishop Makarios was forced to quit the island after the 1974 Greek military coup and the resulting Turkish military intervention.

He was elected president in the second round of the 1993 contest, in which he defeated the incumbent, Mr George Vassiliou, by a slender majority.

DC

ECONOMY

New pressures on path to Europe

Although some signs are positive, there are doubts about the island's ability to compete

Every aspect of the Cyprus economy is being put in gear for full membership of the European Union. Brussels has said that accession negotiations between the EU and Cyprus will begin six months after the close of the Inter-Governmental Conference (IGC), scheduled to end in June.

This means that detailed negotiations on the accession of Cyprus could start before the end of the year. For practical reasons, however – not least the Cypriot presidential elections next February – the effective starting date will probably be the spring of 1998.

There is nothing but optimism in Nicosia. Many people acknowledge that the negotiations will be protracted, but few are prepared to wager against success. The process of harmonising Cypriot legislation and policies with the Community is proceeding apace.

Twenty two working groups were established to identify the reforms needed to bring the legislative and institutional framework of Cyprus into line with EU requirements and they have now completed their work.

The Central Bank has also accelerated harmonisation efforts and made substantial progress in the liberalisation and reform of the financial sector. The Bank is easing restrictions on foreign ownership in Cyprus and relaxing rules for Cypriots investing abroad (see box.)

The Cyprus economy has to plan for the prospect of full EU membership – and the competition that it will bring. Already there are signs of strains. The economy last year, on the basis of provisional figures, saw a slowdown, attributable mainly to a decline in tourist revenues and in private consumption expenditure.

Manufacturing production decreased as a result of lower domestic and foreign demand. Agricultural production also fell slightly, but the important services sector continued to expand.

This weakening of economic activity should, however, be seen against the background of the cyclical upswing in 1994 and 1995. Those two years were differentiated: the former saw strong foreign demand conditions; the latter an expansion of domestic consumption. Both markets were weaker last year. Consumer spending fell in 1996, but this helped to contain inflationary pressures. The rate of inflation last year is put at 3 per cent (2.6 per cent in 1995).

The relatively large fiscal deficits of the early 1990s have been reduced. This reflects the determination of the government to contain the deficit at or below the Maastricht criterion of 3 per cent of gross domestic product. The final figure is not in for last year, but the total will be within the Maastricht framework. (The figure was 1 per cent in 1995 and 1.4 per cent in 1994.)

The scenario has not been so rosy for the foreign trade account. Total imports last year, including a sizeable spend on military equipment, rose by 11 per cent. The 18 per cent increase in total exports, due entirely to re-exports from a much lower base did not prevent a deterioration in the trade account. Lower tourist numbers contributed to a near doubling of the balance of payments deficit to C£212m. Another good year for incoming foreign exchange deposits, however, increased total foreign exchange reserves by some C£402m to C£2.28bn, equal to about 15 months of imports.

The construction industry index was largely unchanged over 1995. The volume of building permits authorised – a useful indicator of the future level of construction – fell, mainly in the tourist and commercial sector but there was a small increase in permits for residential buildings. Builders have had marked success overseas, especially in the Middle East and the Gulf states. Domestically, mining and quarrying production rose strongly.

The overall weakening in economic activity last year inevitably hit employment. The jobless total in December was estimated at 9,400, 20 per cent up on the previous year but still only 3 per cent of the workforce.

Forecasting prospects for 1996 in its last annual report, in June, 1996, the Central Bank correctly predicted the cyclical downswing in private consumption expenditure, but overestimated the performance of the tourist industry. As a result, the expected real GDP growth of around 3.5-4 per cent (5 per cent in 1995), will not have materialised when the final figures are in.

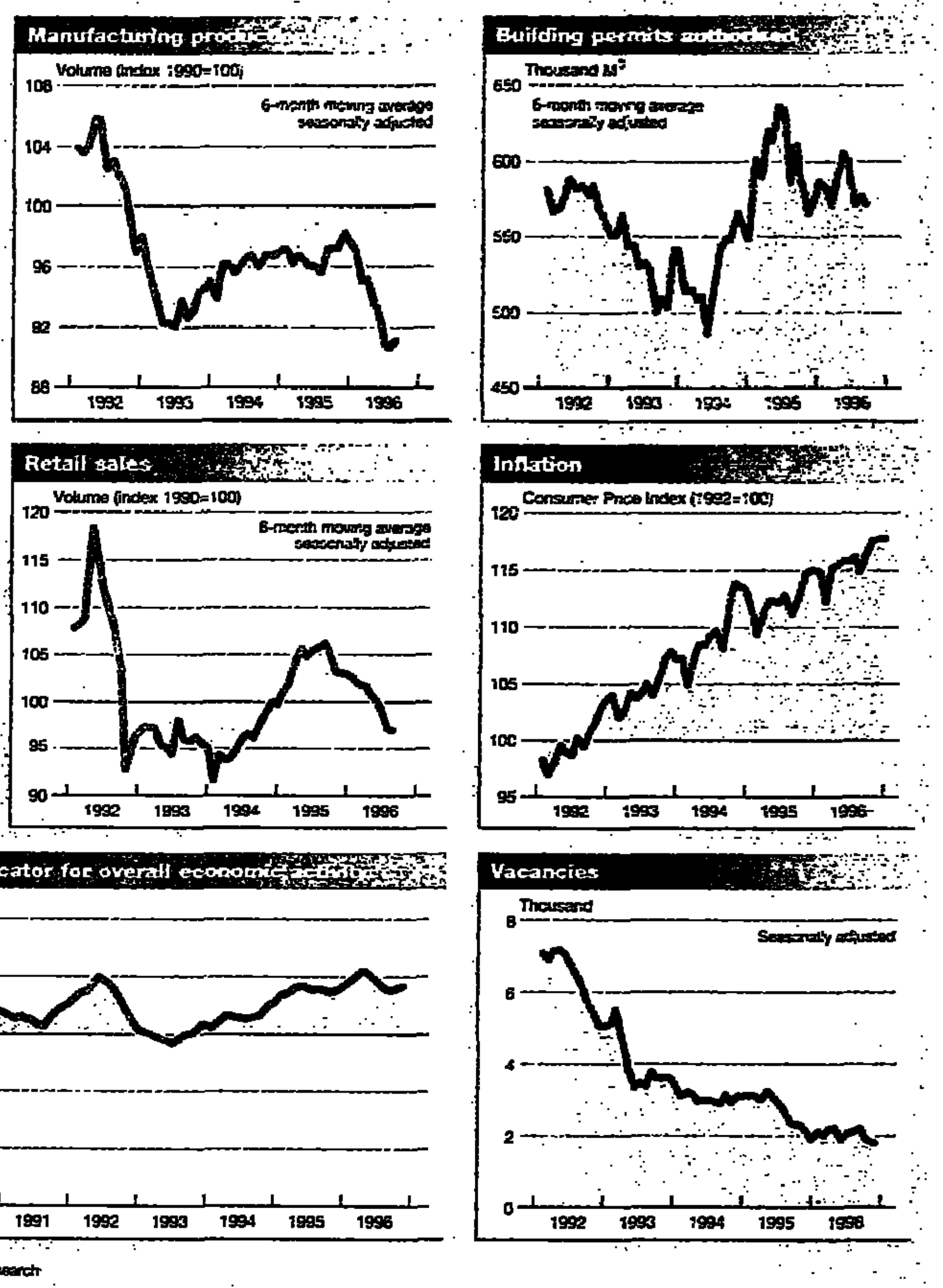
Business confidence in the Greek-Cypriot economy remains high, even if some sober voices are warning that full EU membership will present challenges to a small economy that has yet to operate in a fully deregulated environment.

The agricultural sector is particularly weak. Its contribution to the economy is diminishing fast: farmers are failing to make a living and leaving the land.

Composite indicators for the Cyprus economy from the Department of Statistics and Research, intended to identify turning points in the business cycle, showed an upward movement in the last quarter of 1996. The three previous quarters were relatively stable.

Anecdotal evidence in Nicosia confirms this view, but with a caveat. Most industrialists think their costs are too high and that productivity is too low to compete overseas. Quality, too, is a continuing problem in agricultural exports.

> The economy last year, on the basis of provisional figures, saw a slowdown, attributable mainly to a decline in tourist revenues and in private consumption expenditure



Source: Department of Statistics and Research

Invitation to inward investors

The Central Bank has rewritten the investment rulebook

Last month, Cyprus Central Bank announced relaxations of the rules covering inward foreign investment. It is also adopting a more liberal stance with respect to outward direct investment. The aim is to create an environment with minimum interventions, in accordance with European Union legislation.

The government hopes that the relaxation will boost economic activity, upgrade technology and improve both quality and marketing and management techniques.

Under the new rules, foreigners are allowed to invest in Cyprus provided "that the investment does not pose a national risk, has no negative environmental impact and is not a burden on the economy".

In the primary sector – agriculture, fisheries and forestry – foreigners are now allowed to hold up to 49 per cent of share capital. In clothing, footwear, furniture and the wholesale and retail trade they can hold 100 per cent.

There are, however, some qualifications; for example, if foreign participation in the wholesale and retail sectors exceeds 49 per cent, there must be a minimum investment of C£200,000.

Similarly, foreigners may invest up to 100 per cent in professional, computer and consultancy operations, but there is a minimum amount – set between C£50,000 and C£100,000, depending on the size and the scale of projected operations.

Foreign ownership of dealers and agents for imported goods and services, restaurants, leisure facilities and local travel companies can be 49 per cent. The policy on tourism allows for 49 per cent of hotel and tourism businesses, and full control of ancillary tourist projects, including marinas and golf courses.

Percentage ownership of banks, finance and insurance companies, newspapers and magazines, and new airlines, will be judged on individual merits.

With the exception of the banking sector, where foreign ownership is limited to 15 per cent, foreigners may now own up to 49 per cent of Cypriot public companies.

However, some sectors are still excluded from foreign participation, including real estate, the servicing of foreign aircraft at Cypriot airports, utilities such as electricity and water, and tertiary education.

Despite this, partial privatisation of some utilities – particularly telecommunications – is currently being considered.

The new investment regime also covers Cypriots investing outside the island. Local businessmen will be able to export capital of up to C£500,000 and secure a bank guarantee of a similar sum in order to obtain foreign borrowing. However, each application will be examined to establish "that there are good prospects that there will be benefits for Cyprus from the expansion of the Cypriot investor's activities abroad".

Comprehensive information may be obtained directly from the Central Bank of Cyprus. E-mail: cbc - info@centralbank.gov.cy.

OFFSHORE ACTIVITIES

The centre may not hold

Full membership of the EU could weaken Cyprus's position as an offshore centre

Contrary to conventional financial shorthand, Cyprus is not a tax haven. It is very much a tax incentive country. Its offshore activities cover banking and financial and fund management services, limited companies, international branches and partnerships. It is also the world's fourth largest shipping register, in terms of total fleet.

The island has excellent telecommunications, regular air services – four hours from London, three from Moscow, two from Kuwait and one from Athens – low office and staff costs and a favourable tax regime. Its legal framework is based on English law and it has a low crime rate. The island's time zone is seven hours ahead of New York and seven behind Tokyo, providing an ideal trading window.

Cyprus became an offshore centre in the mid-1970s. Since then the number of companies registered in the island has grown to more than 22,000, based on permits issued by the Central Bank. About 1,200 of these companies operate from fully-fledged offices. They directly employ an estimated 6,500 people, one in three of them Cypriot nationals. Their activities are predominantly in trade, marketing and distribution.

It is substantial tax incentives that make this Mediterranean island attractive for offshore activity. Net profits are taxed at 4.25 per cent and expatriate employees are taxed at half the rates applicable to locals. Tax on dividends or interest is not withheld at source.

A further advantage – and one that differentiates Cyprus from other offshore centres – is that the island has double taxation agreements with many countries. This offers opportunities for reducing tax liabilities.

Money laundering and associated crimes are always a risk with offshore activity, but Mr A.C. Afxentiou, governor of the Central Bank, insists that his administration is extremely vigilant. It aims to ensure that "Cyprus does not get a bad name".

A range of laws guards against criminal exploitation, and the island maintains good co-operation agreements with international agencies. Mr Afxentiou says that the island's banking system acts unilaterally in suspicious cases. Less immediately obvious cases are referred to the Central Bank for clearance.

The Bank itself insists on banking references from all applicants for offshore permits, together with proof of beneficial ownership. While nominee status may be conceded, the Bank requires transparent evidence of the true ownership.

Despite the number of offshore permits issued since 1975, actual direct revenues accruing to the island are relatively small when compared, say, with the tourist account. Revenues from fully-fledged offices and their expatriate employees amounted to C£147m in 1995, 15 per cent higher than the previous year. Adding revenues from new registrations, local legal, accounting and other services to companies and from income and other tax contributions, the Central Bank puts total earnings at C£162m.

The landscape of business: good infrastructure has attracted companies from all over the world

Including gross expenditure by ship-owning companies, total foreign exchange earnings last year are provisionally estimated at C£190m-200m.

Of no less importance are the benefits to employment and overall economic growth. The island's reputation as an international services centre reduces its dependence on tourism.

> Regimes that treat onshore and offshore activity differently for tax contravene EU directives

But the benefits may not last if Cyprus achieves full membership of the European Union. The discriminatory tax regime between offshore and onshore activity would be contrary to EU directives, although a time-limited derogation would be possible. Preferential tax treatment for expatriate workers will also have to be phased out.

Laws touching on the ownership of property, some employment restrictions, indirect taxation and social insurance contributions would also become issues if full EU accession were granted.

There are already signs of difficulties over the shipping register. Mr Neil Kinnock, EU transport commissioner, has expressed concerns about its safety and quality to Mr Adamos Adamides, the island's minister responsible.

The minister insists that his government is committed "to making improvements in this sector to meet the challenges and requirements of admission to the Union". There has been some expansion of the ministry's inspection teams around the world, and more are planned. Perhaps inevitably, some owners will move their registration to countries with less demanding requirements.

Government ministers and officials insist, however, that they will pay almost any price to obtain full EU membership.

Not everyone in the island's business community is equally committed, but the mood is generally positive. The reason may have more to do with the need to combat political isolation than economics.

BANKING

A mandate to bring the ceiling down

Modernisation of the financial system means the end of the interest rate cap

Foreigners have long been exasperated by the fact that credit cards in Cyprus are only available to non-residents with the permission of the Central Bank. For when it comes to credit, the island is one of the cheapest places in the world. The reason is simple. There is a ceiling of 9 per cent on interest rates, set by the British administration in 1944 in the face of usurious rates being charged to Cypriot farmers, then the mainstay of the island's economy.

This ceiling on rates was reaffirmed by the independent government of Cyprus in 1977. The result is that the Central Bank has had one very important hand tied behind its back in the operation of monetary policy, albeit a predicament eased by a tight regime of foreign exchange controls.

Now the Bank, supported by the government but not necessarily by the political parties, aims to remove the ceiling as part of the drive to modernise the financial system ahead of European Union membership.

Mr Andreas Patsalides, former governor of the Central Bank and an ex-minister of finance, noted in a recent speech in London: "The statutory ceiling on interest rates of 9 per cent has not only dampened the development of financial markets and instruments in a competitive environment, but it has, additionally, deprived the monetary authorities of the use of a more flexible and effective instrument of monetary control."

The present governor, Mr A.C. Afxentiou, recently re-appointed for a second term, shares that view. He acknowledges, however, that "selling" the enabling legislation will not be easy.

The consensus is that interest rates will rise if the present ceiling is lifted, and no one expects the government to introduce enabling legislation before the presidential elections in February of next year.

The immediate popular concern is more psychological than real, given the current relatively low interest rate regime in EU countries and the almost certain fact that legislation eliminating the 9 per cent ceiling will be accompanied by an easing – if not the final elimination – of all foreign exchange controls in Cyprus.

But the Central Bank, and the island's clearing banks, know they have a tough job on their hands. The political parties are not anxious to be seen to endorse the abolition of a policy that has been in operation for more than 50 years and kept mortgage and other lending rates at a relatively attractive level.

The inflexibility of interest rates has obliged the Central Bank to resort to other means of affecting monetary and credit conditions. These are either less effective or cause undesirable side-effects. Banks have had to conform to reserve requirements and, until recently, liquidity requirements much more stringent than those normally applicable in developed financial systems.

Changes are now in place, or are planned. An International Monetary Fund team visited Cyprus in 1995 to provide advice and recommendations on the introduction of auctions of government securities and related monetary policy reforms. The outcome was that the Central Bank, in its new policy framework, has moved away from the use of direct instruments for monitoring liquidity in the economy in favour of market-based tools.

The liquidity asset ratio, the main instrument of monetary policy for more than 20 years, has been abandoned. The new mechanism of liquidity management is repurchase transactions between the Central Bank

> 'Selling' the enabling legislation will not be easy

and money market institutions.

Minimum reserve requirements for the banking system have been reduced significantly, and a short-term Lombard-type facility has been introduced. In addition, since the beginning of last year, government treasury bills have been issued by auction, allowing interest rates to reflect market conditions more accurately. A new banking law has also been prepared to reflect EU norms.

The commercial banking network on the island has expanded enormously since independence in 1960. Today, there are some 500 branches in the area under the control of the government, compared with no more than 40 in the whole of the island in the 1960s. These are supported by a network of financial institutions, including co-operative credit societies, long-term housing and property development institutions, such as the Housing Finance Corporation, hire purchase companies and the government-owned Cyprus Development Bank.

Indeed, there could be arguments that the island is over-banked. The largest domestic institution, the Bank of Cyprus, has been looking abroad for expansion, especially in Britain, Greece and Canada where there are significant numbers of Greek-Cypriots. The Bank of Cyprus last year announced a capital raising programme to finance overseas expansion. It included a projected rights issue and a convertible bond listed on the Luxembourg stock exchange – the first Cypriot financial instrument to be listed on a European stock exchange.

Salomon Brothers acted as lead manager to the issue. It was oversubscribed, allowing the bank to select its new shareholders, including Deutsche Bank. On conversion of the bonds, the shareholder base of the bank will be broadened, with international investors owning about 8 per cent of total equity.

There has been dynamic growth in offshore banking. The sheer internationalisation of the Cyprus offshore area is illustrated by an advertisement in the Financial Times a few months ago. The recruitment announcement sought "A bank analyst: Russian speaker – Cyprus-based".

The Cyprus Central Bank emphasises that its control over granting banking licences to offshore institutions is strict and designed to ensure that no illegal money laundering can take place. Officials stress that existing legislation is in line with EU policies.

The controls are there, and so is the will, but with more than 22,000 offshore trading entities now registered in Cyprus, it seems likely that there will be some attempts to bend the rules. What is not in doubt, however, is the commitment and ability of the Central Bank to enforce its mandate.

TOURISM

Economic pillar in need of support

Better amenities and facilties aim to lure back big-spending tourists

Tourism is the lifeblood of the economy of Cyprus, and right now it is haemorrhaging. The number of arrivals last year was down by more than 6 per cent. As more Cypriots are travelling abroad, the result is a sharp decline in the surplus on the national travel account.

The industry employs one in three of people in work and contributes about 20 per cent of national income. The decline in overall tourist revenues was the main contributor to the worsening balance of payments position in 1996.

That said, Cyprus continues to attract 2.5m tourists a year, the majority from European Union countries. Britain remains the most important source of visitors, accounting for 750,000 last year, down almost 18 per cent. There were also sharp drops in arrivals from Israel, Switzerland, Austria and Denmark. On the other hand, there was a 29 per cent rise in visitors from Russia – some direction signs in the coastal resort of Paphos are now in Russian – and from Greece, Egypt and Scandinavian countries.

Mr Antonios Andronikou, chairman of the Cyprus Tourism Organisation, attributes the decline in tourist arrivals to increasing competition from new tourist destinations. He mentions specifically the Dominican Republic and Thailand.

The Central Bank, while noting the weak economic environment in many European countries, points in its last annual report to a somewhat more worrying trend.

"The (travel account) figures for Cyprus verify, in retrospect, the loss of competitiveness of the tourist sector, in very much a similar manner to the loss of competitiveness of the trade sector."

The relative weakness of sterling last year against the Cyprus pound did not help

> Increased competititon has led to a decline in tourist arrivals

tourist promotion in the UK. Devaluations in Portugal, Spain and Italy have made directly competing tourist markets more attractive in the value-for-money mass tourist market.

Cyprus was traditionally aimed at high and middle-income visitors, selling as a prestige destination to the exclusion, as a matter of official policy, of mass tourism. The policy collapsed after the Turkish invasion of 1974 when the island lost its pre-eminent tourist locations of Famagusta and Kyrenia, and 70 per cent of its tourist infrastructure.

That Cyprus has since managed to assemble a massive tourist infrastructure in the south of the island, predominantly along the 295 mile coastal stretch now under the control of the government in Nicosia, has been a significant achievement.

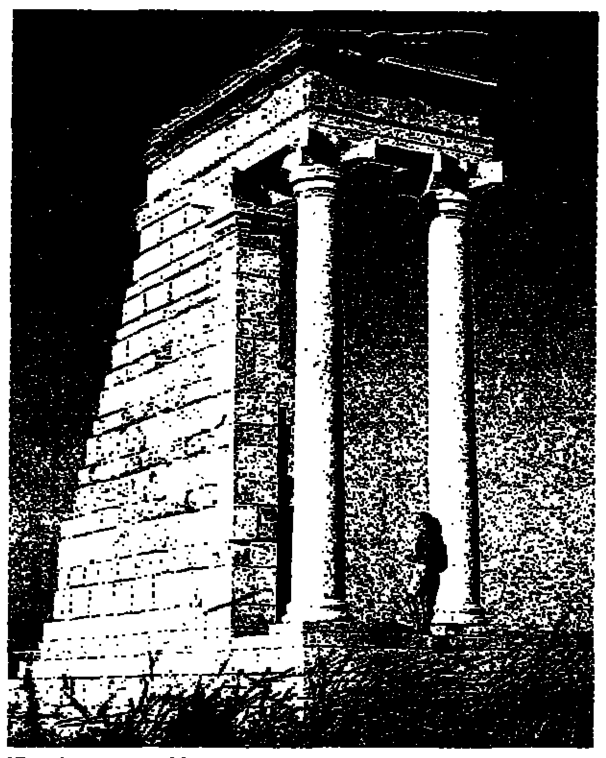
Inevitably, mistakes were made in the dash to replace the lost facilities. High-rise hotel complexes, inadequate supporting infrastructure, a car-parking nightmare and environmental damage are apparent in places like Limassol, Agia Napa and, to a lesser extent, in Larnaca.

The authorities have now called a halt. Government grants for hotel developments have been stopped and planning procedures tightened. The emphasis today is on upgrading the tourist product and widening the appeal of the island.

Given the importance that revenues from tourism play in the economy, the government and the Cyprus Tourist Organisation will not go public on a need to reduce tourist numbers. The new emphasis is on market level and diversification of appeal.

Increasing the spend per tourist is taking over from increasing the overall numbers. With that objective goes upgraded facilities and new amenities.

There are plans for marinas to augment the existing crowded facilities at Larnaca and Limassol, for high quality golf courses, for integrated tourist facilities in areas not yet exposed to tourists and for a casino. There are also plans to exploit the historic sites of the island.



Historic sites should soon be better exploited *Tony Stone Images*

In spite of its small size, the island has much to offer. Sea and sand, of course, and increasingly water sports horse-riding, hill-walking, skiing in the Troodos mountains, sailing, tennis and some interesting cooking. Part at least of the promotional blurb for the island is true. The people there are genuinely friendly and helpful towards visitors

Close on half of all tourists visit the island in the three months July to September when it is hot. April and October are considered to be perfect in terms of climate, while March and early November are a haven from the Northern European winter. The hotel industry generally negotiates discounts in the off-season and for shoulder months.

Nicosia, the capital, is the inland business centre, some 33 miles from the international airport at Larnaca. The main resorts are along the southern coast, and Paphos on the south-west of the island has its own airport, mainly for charter business.

North of Paphos there are several less-crowded resorts, all the way up to Kato Pyrgos just outside the Turkish-occupied area.

A glimpse over the Green Line

A personal view of some of the effects of demarcation on daily life

It's a fair estimate that nearly half of the population of government-controlled Cyprus has never seen the Turkish-occupied north. After all, a quarter of the inhabitants are under 14 years, and the Turkish invasion took place in 1974.

Not surprisingly, young people are curious and also a little afraid. This is in part because the north is occupied by the Turkish army. Fear is also fuelled by political propaganda, often produced by people who themselves have not been – because they cannot go – to the north of Cyprus for 23 years.

There are, of course, broadcasts from Turkish-Cypriot television, but it is assumed that these, too, are part of a propaganda process.

"What is it really like over there?" they ask of those able to travel, mostly diplomats or visiting foreign reporters. One senses that this genuine curiosity is coupled with the hope that the answer will be "Not very good".

It isn't good, when compared with the economic well-being in the government-controlled area. At a casual glance it is not altogether bad, either.

Entering the Turkish-held territory through the Nicosia crossing, past the once very grand Ledra Palace Hotel, there is a brief and desolate no man's land. It is occupied mainly by dogs, bored United Nations personnel and, on my recent visit, joggers from the diplomatic community.

Joggers and journalists are checked meticulously by Turkish-Cypriot policemen. The diplomats have useful identity cards.

I had left my passport on the other side. To Turkish bureaucracy, this was a real problem. Fortunately an old friend, Mr Ali Dana, was awaiting me and eventually

> No man's land is occupied by dogs, UN personnel and diplomats

all was well.

Mr Dana is a distinguished lawyer, and a serious entrepreneur in the north. He is also a personal friend of both President Clerides and Mr Rauf Denktash, the Turkish-Cypriot leader. All are British-trained lawyers.

Mr Dana drove me to Kyrenia, on the highway from Nicosia. Most Greek-Cypriots have heard rumours about this road, but can't imagine how it was financed.

He showed me the gigantic statue of Ataturk, the father of modern Turkey, high on a peak of the Kyrenia range. At night it lights the whole area.

The port of Kyrenia was once a favourite retirement home for British colonial officials who, to quote Lawrence Durrell, the island's best known expatriate observer, lived "what appeared to be a life of blameless monotony". It is more bustling today, occupied mainly by Turks who moved from the south, and by "colonists" from the Turkish mainland. It has a hydrofoil terminal.

I also saw many new tourist and private developments. On my return south I heard expressed with certainty the view that they were on land "stolen" from the Greeks. I expect it is true in some cases, but in both parts of the island, what people want to believe is more important than truth. It is not the best basis for a settlement.

Mr Dana is fortunate as he has seen something of the south since the events of 1974. He got permission – directly from the office of the president – to cross the Green Line in order to defend a case involving a Turkish-Cypriot. The fact that he did so shows that the community divide can be crossed.

DC

ENVIRONMENT

The right climate for change

Countering the effects of bad planning is difficult – but not impossible

Few dispute that building developments since the 1974 invasion by Turkish forces have harmed the Cypriot environment.

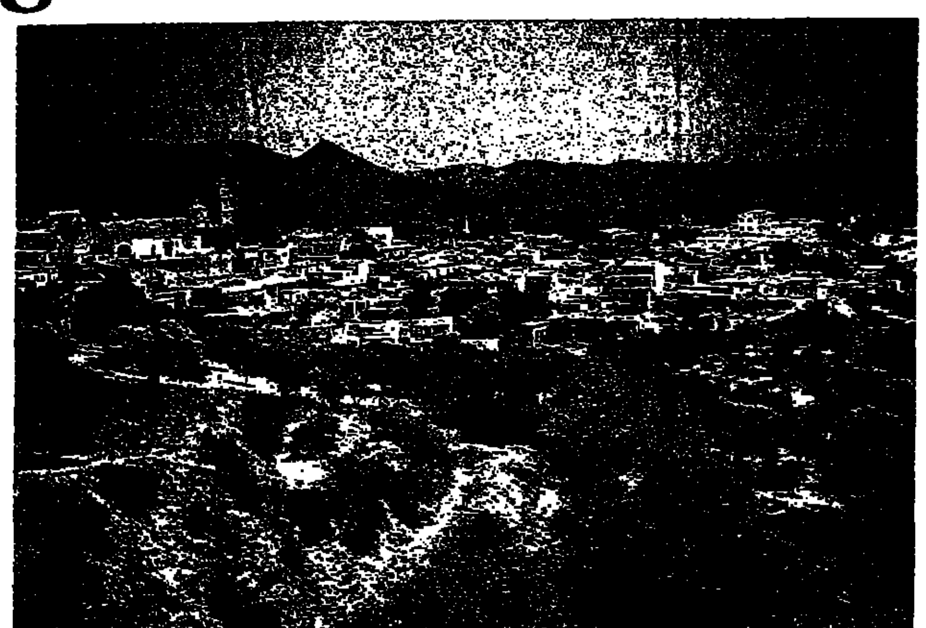
To an extent, some defacement of the landscape was inevitable. At a stroke 200,000 people – almost one in three of the population – became homeless as they fled the Turkish army and moved south. The immediate problem of rehousing them took priority over planning permissions.

The need to replace the lost tourist resorts of Famagusta and, to a lesser extent, Kyrenia in the north was equally urgent and, arguably, equally destructive. Tourism was then, and remains, the mainstay of the Cypriot economy.

Tourist developments along the whole of the southern coast were rushed through with the incentives of government grants. This was particularly so in Limassol, Larnaca and Paphos, where planning permissions were "stretched" or ignored.

The government has now called a halt. While this is partly because of a threatened over-capacity in the tourism sector, it also reflects popular concern about environmental damage.

Mr Nicos Georgiades, director of the small Environment Service, part of the Ministry of Agriculture,



A hilltop village: sadly, some southern developments are less picturesque *Tony Stone Images*

National Resources and Environment, will shortly see his team doubled to eight members. He is likely to need the extra staff.

"Tackling the problem is akin to giving the command to stop a giant oil tanker; it takes time to get a reaction," he says.

Mr Georgiades looks at the environmental implications of decisions by all government ministries. Once a week he faces a televised parliamentary committee to report progress, to answer challenges and to argue for new and better legislation.

The broadcasts reflect the growing emphasis the public in Cyprus puts on environmental issues. It is an emphasis the government seems keen to promote. Mr Georgiades is at pains to define the environment as something that affects everyone. Quoting the United Nations, he says: "The environment, it's about people, it's about security, it's about employment, it's about the quality of life".

There are some 30 non-governmental agencies concerned with various aspects of the environment. Mr Georgiades and his team support their activities by taking the issue into schools and by organising regular environmental weeks.

The problems of water shortages, sewage disposal, industrial and agricultural pollution and waste disposal are acute. To counter them, the government has started a programme of legislation incorporating the principle that "the polluter pays".

Planning permits are now granted under a much tighter regime, and hotel developments no longer qualify for grants.

The World Bank and the UN Food and Agriculture Organisation in Rome have assisted in planning reforms, and the European Union has contributed sizeable funds towards meeting the cost of consultancy programmes.

Central in the island's campaign to protect the environment are the state forests. These represent 19 per cent of the land area of the island, and almost 30 per cent of the territory under Greek-Cypriot control.

The forests are homes to the island's famed flora and fauna, which have attracted specialist tourists for many decades. Plants growing within the state forests are protected by legislation, and it is prohibited to cut, remove, uproot or in any other way to destroy them.

The protected fauna species of Cyprus include the largest wild animal on the island, the goat-like moufflon, whose image is incorporated in the logo used by many businesses.

The animal was on the verge of extinction 60 years ago when only about 15 members of the species were thought to survive.

As a result of tough legislation and strict protection of its habitat, the moufflon is no longer threatened. The animal's home at Paphos Forest is a permanent game reserve where hunting is forbidden.

The temptation for developers to move into the forest may always be there, especially near the skiing area in the Troodos mountains. But the fact that many Cypriots acknowledge the unplanned development in the 1970s and 80s went too far should help counter it.

Environment protection is very much on the Cyprus agenda, especially in urban areas. The fragmented farming community is less committed, and some moves towards more intensive farming methods and the increased use of fertilisers are not helping matters. But a protective legislative framework is gradually being enacted.

INFORMATION TECHNOLOGY

Eagle Eye · Louise Kehoe

Nature of the beast

The emergence of 'push' technology may herald the end of the raw and untamed nature of the Internet

Is push coming to shove on the Web? Webcast programs such as PointCast and Marimba's Castanet have the potential to change the Web beyond all recognition, and possibly not for the better.

Push technology has been heralded as the solution to the World Wide Wait. Instead of searching for websites and waiting for downloads, users will tune in to a Web "channel" and watch as information is "broadcast" to their personal computers.

The TV terminology is no coincidence. It is widely believed that push will bring Web content to an audience of people who would not take the time or trouble to search out information on the Web. It also creates an attractive vehicle for advertisers who can be sure that their materials will be delivered to viewers – just like a TV channel.

All well and good, but if push is adopted by thousands of Web publishers, users will be faced with a myriad of channel choices to search and we are back to square one.

There is also the often overlooked problem of disk space. If data is pumped to PCs at regular intervals and stored on individual users' hard disks, it won't be long, I suspect, before people become very selective about which channels they view – simply because they do not have space on their disk drives.

The next step, surely, must be consolidation among commercial Web publishers and the emergence of large Web media companies. In other words, new media will become mass media – and a lot more like old media.

I fear that the extraordinary democracy of the Internet, which enables almost anybody to become a global publisher, may be damaged in the process. The raw and undisciplined nature of the Internet, which is part of its appeal, may well be tamed.

Of course, pushed channels do not necessarily spell the end of surfing the Web, but I cannot help wonder how many commercial websites will remain independent of the emerging channels – and for how long.

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Another sign of the maturation of the Internet: the lawyers are having a field day. The US Supreme Court is expected to rule this summer on whether it is lawful to restrict the distribution of indecent material over the Internet.

Lower courts in the US are also dealing with a rising number of cybersuits. One of the latest involves Digital Equipment's efforts to prevent Alta Vista Technology, (ATI), a small California Web software company, from mimicking the website of its popular AltaVista search service.

> It won't be long before people become very selective about which channels they view – simply because they do not have enough space

The ATI site, according to a Massachusetts judge, was so similar to Digital's AltaVista that "a visitor to ATI's site could easily have the impression that they were actually at Digital's Alta-Vista site". ATI (*www.alta-vista.com*) provides a direct link to AltaVista (*www.altavista.digital.com*).

When ATI began selling advertising on its lookalike website and garnering revenues on the back of the AltaVista search service, Digital filed suit and this month won a preliminary injunction.

What next? One of the best-known mimics on the Web is a take-off of the White House's site. While *www.whitehouse.gov* is the real thing, another site at *www.whitehouse.net* includes much of the same information and graphics, plus some acid humour.

Recently, for example, *www.whitehouse.net* informed visitors that to save taxpayers' money, the White House was considering billboards on the front lawn – and thus on its Web site. Should *www.whitehouse.net* find any gullible advertisers, there will no doubt be even more lawyers involved.

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Here's a conundrum for those of us who believe in free speech on the Internet. Legislators in the state of Nevada are debating whether to pass a law that would ban "spam".

Spamming, in case you have managed to avoid it, is the mass distribution of unsolicited e-mail – these annoying messages typically tout dubious get-rich-quick schemes.

Subscribers to the big online services such as America Online and CompuServe seem to be particularly prone to spamming, although anyone with an e-mail address is likely to be spammed sooner or later. Nevada is the first US state to consider such a law, but it will hardly be the last.

The proposed law states that "a person shall not send or cause to be sent unsolicited electronic mail to solicit a person to purchase real property, goods or services" unless a prior relationship exists between the parties.

While junk e-mail is a pain, restrictions set a dangerous precedent, I believe, in setting different standards for online communications. Why should e-mail be held to a higher standard than the junk mail that drops through your letterbox every day?

What we need are regulations to ensure e-mail users have the right to remove themselves from mailing lists rather than laws to prohibit spam.

But I am all in favour of an outright ban on mail bombs – programs that send hundreds of copies of unpleasant messages to your e-mail address – which are clearly an abuse of free speech designed to menace people.

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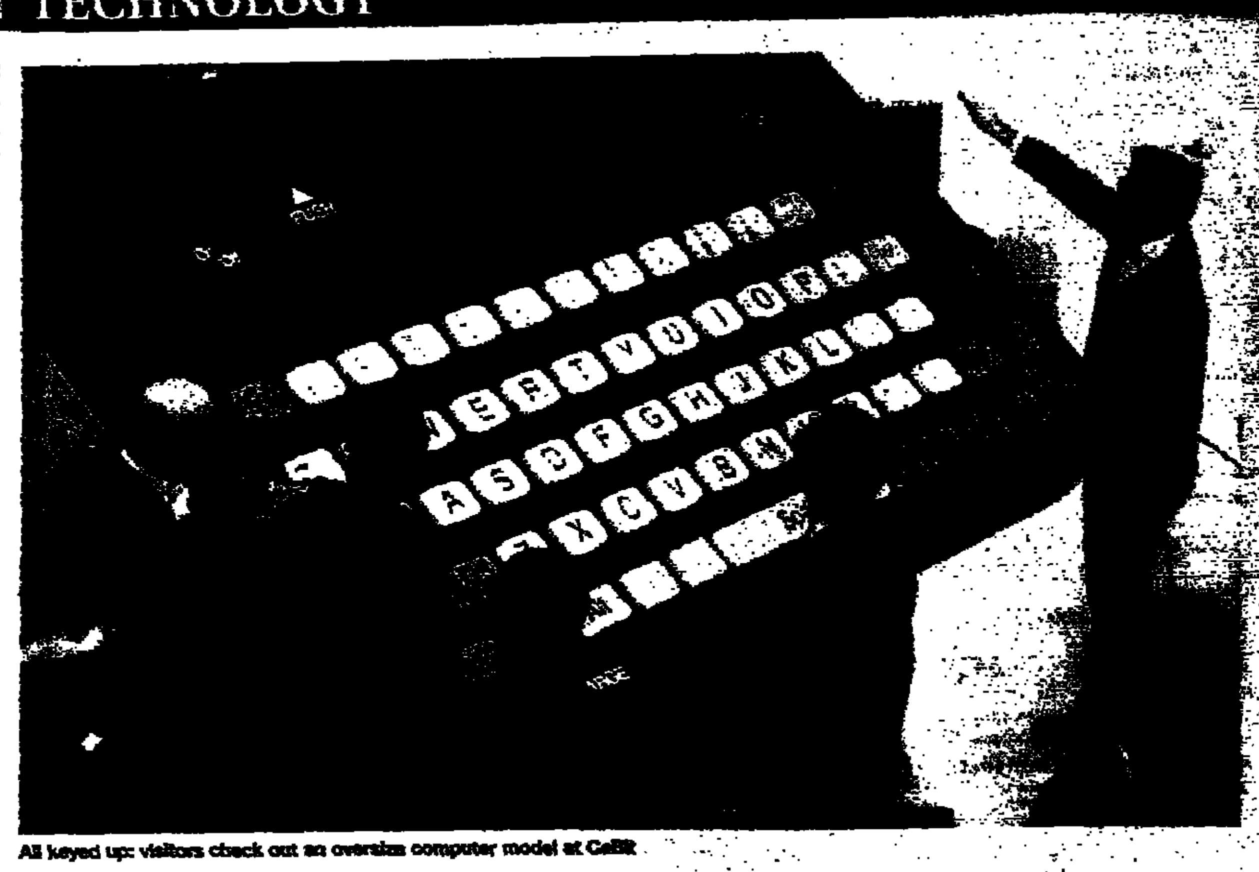
Your opinions on issues raised in the Eagle Eye column are welcome. Please access the Eagle Eye discussion group at *www.FT.com* or contact Louise Kehoe by e-mail on *louise@FT.com*



All keyed up: visitors check out an oversize computer model at CeBit

CeBit Review

PCs weigh in for battle

Paul Taylor checks out the latest technology, from NetPCs to palmtop computers with detachable digital cameras

The three contenders in the battle for the future of the desktop were on display last week at CeBit, the world's largest information technology show.

European IT users had their first opportunity to compare the three at the show in Hanover, Germany.

"Fat clients", standard personal computer hardware and software, and "thin clients", network computers which are low-cost machines that work across networks downloading applications from powerful servers, have been joined by a middle-weight contender, the NetPC.

Supporters of the network computer (NC) concept argue that low-cost NCs are a better corporate option than networks of multimedia PCs which are difficult and costly. This has stung companies such as Intel, the world's largest PC microprocessor manufacturer, and Microsoft, which dominates the market for PC-operating systems and has a sizeable chunk of the PC applications market, into action.

At a pre-CeBit conference two weeks ago, the two companies revealed final details – the "reference specification" – of the NetPC developed with Hewlett-Packard, Dell and Compaq. Intel and Microsoft, which launched the NetPC concept in October, and claimed the support of "more than 100 of the world's top PC manufacturers" for the standard.

"The NetPC will quickly deliver what will soon be available to all business PCs: the latest cost of ownership-reducing innovations in network manageability to complement the power, flexibility and compatibility of high-performance Intel-based systems," said Pat Gelsinger, general manager of Intel's desktop products group.

At CeBit, Siemens Nixdorf, the German IT group, had what it claimed was the first NetPC on display while Oracle was showing NCs from Sun, IBM, Alcatel and Acorn. The IBM network computer, a thin black box the size of a standard hardback book, was also generating interest from big corporate buyers, said IBM.

Oracle also chose CeBit to show the final version of HatTrick, its server-based application software package designed to provide NC users with a standard word processor, spreadsheet and business graphics.

Despite the strident noises made by both camps, most analysts expect corporate customers to stay with PCs or NetPCs for most operations, but to supplement these with NCs. Network computers are also expected to replace old-style "dumb terminals", most of which are hooked up to mainframes or old departmental mini-computers.

NCs could prove attractive for home use, although the restricted capacity or bandwidth of existing telecommunications links may put many consumers off.

Various technologies to overcome these bandwidth limitations were also on display at CeBit. They included modems capable of downloading information at 56 thousand bits per second (Kbps), cable modems, ADSL (asymmetric digital subscriber line) devices and direct satellite services.

Information Technology

● The FT's review of Information Technology appears on the first Wednesday of each month

Unfortunately there is no internationally agreed standard yet for the 56Kbps modem, so Rockwell Semiconductor and Lucent Technologies were showing modems based on their interoperable K56Plus and V.flex2 technologies respectively, while US Robotics is going its own way with its proprietary x2 technology.

ADSL technology, which runs over ordinary copper telephone lines, will provide even more bandwidth and is seen by telephone companies as a possible response to the threat posed by cable television network operators and cable modems.

Cable modems such as the dataXcellerator from Scientific Atlanta, can provide throughput of about 1.2Mbps – about 40 times faster than today's fastest modems and 10 times faster than standard ISDN (integrated services digital network) lines.

Meanwhile, Intel chose CeBit to announce a $15m joint venture with Société Européenne des Satellites which will compete with Hughes Olivetti Telecom's DirecPC service to deliver Web pages and other multimedia content using digital satellite broadcasting.

The new venture, European Satellite Multimedia Services, will offer a service called Astra-net, delivering data to PCs equipped with special $200 internal cards and connected to small rooftop dishes.

Astra-Net should be fully operational by autumn and will be capable of delivering 38Mbps into a mainframe, although download speeds will be limited to 6Mbps into PCs because of slow hard-disc access speeds.

The service may eventually be used to deliver Internet "push" technology services or to download an Internet newspaper overnight ready to read over breakfast.

Technology designed to power, support or exploit the Internet, intranets and business-to-business electronic commerce was well represented throughout CeBit's 24 display halls.

Several of the large Japanese electronics groups including Sony and Sharp were showing off large high-definition flat-screen displays while others were demonstrating the first integrated web televisions – TV sets with built-in web browser software.

But it was some of the smallest imaging, communications and computing devices that was attracting the most attention.

Digital cameras were everywhere – Sharp even showed a palmtop computer with a digital camera attachment. Prices have fallen to such a level that they could become popular consumer purchases.

Handheld PCs running Microsoft Windows CE operating system were on show in Europe for the first time after their debut at last autumn's Comdex fair in Las Vegas.

But most manufacturers said these machines would not go on general sale in Europe until the fourth quarter at the earliest.

The One Touch COM pocket-sized smartphone was one of the most innovative devices on display.

All its features, which include electronic organiser and Internet browser as well as standard telephone functions, can be accessed from the large touch-sensitive screen developed by Alcatel and Sharp.

With one touch, users can turn the phone's LCD screen into a landscape format by using a small touch-sensitive keypad. Messages can then be written with a stylus and sent over the GSM network using the short messaging services facility.

Face to face across borders

Although videoconferencing has caught on, the way it is used varies across Europe, finds Andrew Baxter

The bigger picture: videoconferencing has taken off

Europe is often seen as a single market by IT vendors, but a recent survey on the use of videoconferencing in four European countries shows that big national differences persist.

The survey by Sony Broadcast & Professional Europe also highlighted differing attitudes between users of videoconferencing, and those considering buying systems.

Sony entered the market in 1994, and claims a market share of between 15 per cent and 20 per cent in Europe.

On average, videoconferencing systems are used for more than 52 hours a month, the survey of 69 users and non-users found. The survey also included companies using equipment made by rivals, notably that of PictureTel, the market leader. The most intensive use, at nearly 63 hours a system, was in the UK. Sweden was close behind (59 hours) followed by France (47) and Germany (37.3).

Travel reduction is still the main reason for using videoconferencing, although in Sweden it is seen more as a business tool. These factors are also considered quite highly in the UK, but are a much lower priority in France. Sony cannot explain that, but one possible factor could be the French penchant for personal networking and business lunches.

Overall, there is a contrast between the early adopters and the present users, who have been using videoconferencing to make savings on travel, and the companies that are only now considering investing. For the latter, improved communication is seen as the most important benefit.

This is one of the survey's main findings, says Wouter Deelman, senior manager for Sony videoconferencing products in Europe. "Companies which are driven by cost and return on investment have now pretty much all invested in videoconferencing," he says.

Across Europe, there is also a wide variation in usage of the three types of systems – fixed equipment in a specially fitted-out room, group or "rollabout" systems that can be moved around offices on wheels and used anywhere, and the PC or desktop approach.

The more traditional approach, dedicated room systems that cost between $100,000 (£62,111) and $150,000, is losing ground, particularly in the UK and France, to cheaper, more flexible rollabout systems. The UK is the biggest user of such systems, possibly as a result of stronger US influence to adopt the most cost-effective approach. Germany remains the bastion of room-based systems, which require the broadband fibre optic communications networks such as those installed by Deutsche Telekom since the mid-1980s.

The big question is how the PCbased videoconferencing market develops. These systems attract the heavy users of videoconferencing first, so the UK and Sweden are already installing significant numbers of PC systems. Germany has not yet reached this stage, but respondents there were more confident about the future of desktop systems.

Deelman notes that the market for group systems was expected to collapse with the mass introduction of PC-based systems over the past two years, but this has not happened, partly because the quality of the audio and video is not as good as in group systems.

Also, he says, a PC-based system cannot really be used as a shared resource and some companies are reluctant to put a videoconferencing board and software in all their PCs. And prices for rollabout systems have fallen sharply while functionality has increased.

"Until the market reaches enough critical mass and enters the stage of heavy inter-company usage, and the telephone companies start publishing a videoconferencing directory, enabling users to find out easily who has a unit and dial, group systems will remain a significant portion of the systems installed," says Deelman.

ARTS

German Television / Frederick Stüdemann

East German survivors

In the days when their city was still divided by a wall, west Berlin's television viewers really were spoilt for choice. As well as the numerous west German channels available on cable, viewers could also tune in to programming provided by the three allied powers, Britain, France and the US.

If that was not enough viewers could also transcend the Cold War divide and enter a parallel world by switching over to one of communist East Germany's two television channels broadcast from across town. As well as offering a decidedly alternative take on world affairs, able to sate the appetite of even the most voracious lover of agit-prop, these channels also offered a window into the daily life and popular culture of the "other Germany".

DDR Fernsehen, or DFF as it was known in its dying days between the fall of communism and the wrapping up of East Germany, has since been consigned to the vaults of television history. In the wake of German unification in 1990 the two channels were shut down.

The official explanation was that west Germany's arrangement of regionally based channels feeding into the national ARD public sector network had no place for centrally directed stations. But politics was also undoubtedly a factor.

With the break-up of DFF, east Germany had to create a new television identity. This has been based around two channels, ORB, which serves the state of Brandenburg, and MDR which serves Saxony, Thuringia and Sachsen-Anhalt. The sparsely populated northern state of Mecklenburg-Pommerania decided on cost grounds against setting up its own channel and opted instead to go under the wing of Hamburg-based NDR.

As with all of Germany's ARD affiliates, ORB and MDR run a third channel for broadcast within their region and also make programmes for the nationally transmitted first channel.

At first glance there is little to separate ORB or MDR from, say, the regional channels which serve Bavaria or Rhineland-Palatinate – lots of local news, a few magazine shows and the usual smattering of re-runs and imports.

But on closer inspection both ORB and MDR have evolved an interesting programming mix which serves to give viewers some sense of continuity and links to the "old days". This is no mean achievement, especially given the fact that under communism East Germans spent much of their television viewing time watching western programmes.

The result has been to cherry-pick the archives for old favourites, such as *Polizei Ruf 110*, a cop show in which the forces of the law speed around in nifty Ladas in pursuit of social misfits who have been reneging on the collective spirit. Old comedy shows or tv dramas also get a regular showing. With their shocking fashions and interior decor, the latter have now acquired something of a cult status.

The real schedule-fillers from the past, however, are films. Recent offerings include black-and-white classics, such as Wolfgang Staudte's adaption of Heinrich Mann's book *Der Untertan* (The Underling), which takes a caustic look at petty-bourgeois nationalism and vulgarity at the turn of the century. Films starring Manfred Krug, an east German screen hunk who emigrated west where he has become a household name, are also popular. Central and eastern European films appear to get a disproportionate amount of airtime on ORB and MDR as do spy films.

But beyond the stars and cinema classics the bulk of East German films now shown on television are more pedestrian dramas set within the hermetic world of a walled-in country. To western eyes these remain fascinating viewing as they give at least an impression of what life was like "back then" and "over there". An example is a film set in one of the countless new housing developments in which the majority of east Germans still live.

In plot terms the story is a straightforward parable. Disaffected youths bursting with energy turn a bit delinquent because they feel neglected in their new surroundings. Their parents meanwhile are too wrapped up with work to care. It is left to a sympathetic janitor to show both the youths and their parents the value of working together as a community to the benefit of everyone. All ends well.

Lurking beneath all this of course is the official party line of the collective being the best place for individuals to realise their ambitions. To underscore the point there are central roles for all the little state-ordained bit-players who once wandered through daily life in the east – the janitor, the social worker, the members of the communist party youth wing.

Dealing with the deeper scars left by East Germany's ideological legacy has been more tricky for ORB and MDR. Here yesterday's propaganda is often recycled as working material for documentaries dealing with subjects such as the Stasi secret police or the communist party's trampling of artistic freedom in the 1950s.

But the most significant East German programme to survive the transition runs for only eight minutes at a time, and involves stuffed animals and bucolic tales of foxes and birds in woods all brought to you by a cute little boy with straw hair and a hat.

Sandmännchen, or Sandman, was the before-bedtime children's programme in East Germany. The presentation is simple, if not slightly amateurish. The voices – sometimes provided by actors who later went on to bigger things in Hollywood, such as *Shine* Oscar nominee Armin Mueller-Stahl – are quaint and soothing. The signature tune provided by a choir of children is the aural equivalent of teddy-bear wall-paper.

Compared with contemporary childrens' programming, *Sandmännchen* looks hopelessly outdated. But for east German broadcasters and parents, who themselves had all grown up with the programme, there was no question of junking the show. Having seen nearly every aspect of their lives criticised, changed or repackaged in the last seven years, *Sandmännchen* represents untainted continuity.

Dance

Clammy cravings

David Jays views tortured, paranoid souls

What is the collective noun for a group of dancers? A preen, perhaps. In *Bound to Please*, DV8's new show premiered at the Cambridge Arts Theatre, dance is a matter for self-censorship: from the torturous drill of the ballet class, where sinews are terrified into perfection, to paranoid narcissism in the night club, dance seems a 12-step plan to self-hatred.

DV8's charged physical theatre makes outsiders of us all, as director Lloyd Newson mines the soul's clammy cravings.

In the night-life opening of *Bound to Please*, the performers are rubber-necking club hounds, searching for the cool party, the sublime flirt just out of reach. It is easier to dance alone, blissing out to your own shadow, giving it finesse with your shoulders. Amid the puttering fingers and pelvises worn like billboards, a caress is no more than a narcoleptic hand flopping down your cheek.

Ian MacNeil's rotating set plays with concrete and steel, its desolation stunningly lit by Jack Thompson. He dunks the stage in nocturnal gold, saturates it with rosy banality, snares figures in backlit doorways. Perfect for a show in which people fumble for intimacy in public, gauging a response to scrutiny.

The neediest figure is played by Wendy Houstoun (sic), an electric knot of nerves with a mass of tangled hair. Her chippy disruption of a dance class is fuelled by desperation to conform – "I can be the same!" she chirrups eagerly – but her body refuses to achieve ballet's impossible grace.

Newson has an unfailing eye for the recalcitrant party pooper. Whenever it looks as though Houstoun might get her act together a shadowy figure emerges from the darkness, embodiment of all her self-loathing, slapping down her confidence, pushing her out of line.

The most encouraging figure amid the neurotic narcissists is spry veteran Diana Payne-Myers. Living proof that you can emerge from a career in dance with a smile and a personality, she plays a raving wrinkly engaged in awkward romance with Liam Steel's maladroit young anorak. Their fumbling union, jammed in a doorway, is far more poignant than the smooch time around them. Their heads may loll, their bottoms could do with an airbrush, but who cares?

Well, the blokes does, of course. Cruel with shame and loathing, he rejects her crumpled caress. With pragmatic melancholy, Payne-Myers scrubs away sadness in a small iron tub, as the other dancers swoop around her in empty virtuosity. Even Houstoun knots her mane into a tight, bright bun, fixing the audience with a sterile smile.

Though lacking the visceral concentration of *Enter Achilles*, his previous production, Newson's new show probes the yearning heart and the knobbly body with wit and unflinching fascination, plus an unexpected swipe at his sheepish audience. The movement is less physically gruelling than usual, but grace is admitted only to be trashed. *Bound to Please* is the answer to dancephobes' sneering that the art is merely in thrall to airhead escapism.

Bound to Please tours until August, including The Swan, High Wycombe April 2-3 and the Tramway, Glasgow, April 10-12.

Diana Payne-Myers, as the raving wrinkly in Bound to Please

Theatre

A two-dimensional Hobson

For all that it echoes *King Lear* at points, and ultimately has its heart in the right place, *Hobson's Choice* cannot but come over today as a slice of patronising escapism. The play possessed a reassuring distance from the first; Harold Brighouse set it not in the Lancashire of the time of its composition (1914-1915) but three decades earlier – recognisably similar yet far enough removed to be seen as no more than an entertainment.

This gap of detachment has widened until, these days, the Salford of Henry Horatio Hobson seems no more real than Brigadoon.

Jack Smethurst is best remembered for his role in the 1970s television sitcom *Love Thy Neighbour*, the racist humour of which would give nightmares to a modern-day media student. His rumbling, bewhiskered Hobson is more or less an ancestor of that character but the familiarity of seeing Smethurst in such a part is a mixed blessing; when Hobson is speaking bluntly everything is comically fine and dandy but when he moves into a more verbose, pompous vein, Smethurst seems to come adrift from the words, sounding as if he is merely reciting rather than truly vexed.

Partly for this reason, Stuart Burge's production appears to concentrate more heavily upon the other two points of the central triangle, Hobson's daughter Maggie, and her hapless, commandeered husband, Willie Mossop.

Katharine Rogers makes Maggie firm without turning her into a termagant; there is more than just play-acting to her later outward deference towards her husband. Nor, in Stefan Escreet's performance, is Willie simply the spineless creature of the woman who plucks him from Hobson's cellar workshop to set him up in his own cobbling business on the other side of Time Reed's towering stage revolve; Willie may be the junior partner in the marriage but he does know his own mind, unable though he may be to act upon it. However, Willie's final transformation – for all that it is little more than a brave front – is a shade too comprehensive; the man who stands up to Hobson is another person entirely from the one who first popped his head out of the trap door barely two hours earlier.

The rest of the production runs on rails. Hobson's two younger daughters indulge in two-dimensional "uppishness", while their respective suitors are denied even so much opportunity; the Scottish doctor who diagnoses Henry Horatio's alcoholism gets on, does his job, and gets off again.

It all works perfectly well by its own lights but the play's enduring popularity can surely only be explained in terms of our desire to congratulate ourselves that we have never been as shallow as most of the characters.

Ian Shuttleworth

West Yorkshire Playhouse, Leeds, until April 12, tel: 0113-2442111.

Concert

Deeply romantic Gergiev

Valery Gergiev seems to be everybody's favourite conductor in London. Having received widespread praise for his *Lohengrin* at the Royal Opera House, he flew in for a couple of hours last week to receive a special prize at the Evening Standard Awards and on Monday flew back for just a couple of hours more to give a concert at the Barbican.

This was with his second orchestra, the Rotterdam Philharmonic. The Rotterdam musicians naturally want to remind everybody that Gergiev has a regular post beyond his very high-profile position at the Kirov Opera. He has worked in Rotterdam since 1989, was appointed principal conductor in 1995 and now even has a festival in the city named after him. This year's Gergiev Festival (18-26 September) promises "ecstasy and tranquillity".

This human whirlwind will, as usual, be conducting every night. Where does he find the energy? (And where does that leave the Royal Opera, if they are considering asking him to fit in time as their music director as well?)

There may be backstage whispers that his performances sometimes skimp on rehearsal, but they do not often come across like that to the audience. The Barbican concert on Monday had Gergiev's personality stamped on every phrase. The Rotterdam Philharmonic played well for him and there was every sign that their partnership is a real one, creating music as a team.

The orchestra is a regular visitor to the Amsterdam Muziektheater (it played for Rattle's *Parsifal* in January) and maybe the experience of that awful acoustic has made it work doubly hard to sound good. Even in the difficult Barbican Hall there was a warmth and richness to the textures. The string sound, in particular, is deeply romantic, which may be a Gergiev trait. He chose to start the programme, however, with Stravinsky's *Symphonies of Wind Instruments*, followed by a strong, highly dramatised account of Bartók's *Music for Strings, Percussion and Celesta*.

We have had little opportunity to hear Gergiev in any classical repertoire in London, but this performance of Beethoven's "Eroica" Symphony suggested it should be an interesting experience. Gergiev is unashamedly subjective, slowing down at will to emphasise a passage and then building up again to climaxes of passionate intensity. The performance held together, because he has a good sense of direction, but more important there was not a moment when Gergiev's complete immersion in the score faltered. Music seems to pour out of this man.

Richard Fairman

INTERNATIONAL ARTS GUIDE

AMSTERDAM

DANCE
Het Muziektheater Tel: 31-20-5518117
● The Dutch National Ballet: perform "Diamonds" to music by Tchaikovsky, choreographed by George Balanchine, "Ruins of Time" to music by Tchaikovsky, choreographed by Wayne Eagling and "Les Présages" to music by Tchaikovsky, choreographed by Léonide Massine; from Mar 29 to Apr 9

BERLIN

CONCERT
Philharmonie Berlin - Grosser Saal & Kammermusiksaal Tel: 49-30-2614383
● Kammer Sinfonia Berlin: with conductor Leon Spierer perform works by Schubert, Horvitt, Piazzolla, Kanajan and Romero; Mar 27
Berliner Ensemble Tel: 49-30-28408
● Nino Sandow: the singer accompanied by pianist Jens-Karsten Stoll performs works by Majakowski and Albers; Mar 27

JAZZ & BLUES
Konzerthaus Berlin Tel: 49-30-203090
● Acker Bilk: performance by the British jazz clarinetist. The programme also includes performances by the Dutch Swing College Band and the Umbrella Jazzmen; Mar 29

BONN

OPERA
Oper der Stadt Bonn Tel: 49-228-7281
● Samson et Dalila: by Saint-Saëns. Conducted by Marc Soustrot, performed by the Orchester der Beethovenhalle Bonn and the Oper der Stadt Bonn. Soloists include Lucia Naviglio, Alexej Steblianko and Anooshah Golesorkhi; Mar 29

CHICAGO

THEATRE
Steppenwolf Studio Theatre Tel: 1-312- 3351888
● Time To Burn: by Mee. Directed by Tina Landau and performed by the Steppenwolf Theatre Company. The cast includes Alexandra Billings, Jeb Brown, Frankie Davila, Mariann DeMuth and Mariann Mayberry; to Mar 30

COPENHAGEN

EXHIBITION
Det Danske Kunstindustrimuseet - The Danish Museum of Decorative Art Tel: 45-33149452
● Celebrating American Craft - American decorative art 1975-1995: the first major exhibition of American craft held in Denmark, featuring ceramics, fibre-glass, metal, textiles and wood. The display has been loaned from the American Craft Museum and includes works by 100 artists; to May 4

DRESDEN

OPERA
Sächsische Staatsoper Dresden Tel: 49-351-49110
● Jenufa: by Janácek. Conducted by Wolfgang Rennert, performed by the Sächsische Staatsoper Dresden. Soloists include Anny Schlemm, Roland Wagenführer and Albert Bonnema; Mar 28

LISBON

EXHIBITION
Museo Calouste Gulbenkian Tel: 351-1-7935131
● Alphonse Mucha and the Spirit of Art Nouveau: display featuring 134 works by Mucha, loaned by the Mucha Foundation in Prague. The exhibition includes photographic works, jewellery, coloured glass and a selection of the posters made by the artist for Sarah Bernhardt; to May 4

LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● Michael Collins: performance by the clarinet-player, accompanied by pianist Thea King. The programme includes works by Finzi, Brahms and others; Mar 27

EXHIBITION
National Portrait Gallery Tel: 44-171-3060055
● Ignatius Sancho (1729-1780): exhibition examining the remarkable life of Sancho, who was born a slave yet died a respected figure in London's literary, artistic and musical circles. The exhibition also places Sancho within the context of the black presence in the late 1800s; to May 11

OPERA
Royal Opera House - Covent Garden Tel: 44-171-2129234
● Salome: by R. Strauss. Conducted by Christoph von Dohnányi, performed by the Royal Opera. Soloists include Catherine Malfitano, Anja Silja and Rubyn Philogene; Mar 29

NAPLES

EXHIBITION
Museo di Capodimonte Tel: 39-81-7441307
● Continuitá: exhibition featuring a large group of 20th century artists from the collection of the Stedelijk Museum, Amsterdam. On display are works by Van Gogh, Matisse, Picasso, Chagall, Mondrian, De Kooning, Nauman and Warhol; to Apr 6

NEW YORK

EXHIBITION
Brooklyn Museum Tel: 1-718-638-5000
● From Pockets to Pouches: Three Centuries of Handbags: display of historical and period handbags, from the 17th century to the present day taken from the Museum's collection of costumes and textiles; from Mar 29 to Jun 22
The Metropolitan Museum of Art Tel: 1-212-879-5500
● The Art of the Renaissance Woodworker: The Gubbio Studiolo Restored: exhibition focusing on the conservation treatment of the studiolo from the palace of Duke Federico da Montefeltro which dates from the middle of the 15th century; to Apr 15

JAZZ & BLUES
Blue Note Tel: 1-212-475-8592
● Paquito D'Rivera Quartet: performance by the Cuban jazz saxophonist. The programme also includes a performance by the Dave Valetin Quartet; to Mar 30

PARIS

EXHIBITION
Musée d'Art Moderne de la Ville de Paris Tel: 33-1 53 67 40 00
● Les Annees 30 en Europe: exhibition examining the art of the 1930s and its reaction to international events and the looming shadow of war. Artists with work on display include Léger, Picasso, Miró, Dali, Kandinsky, Klee, Dix and Sironi; to May 25

OPERA
L'Opéra de Paris Bastille Tel: 33-1 44 73 13 99
● Parsifal: by Wagner. Conducted by Horst Stein, performed by the Orchestre et Choeurs de l'Opéra National de Paris. Soloists include Wolfgang Schöne, Gwynne Howell, Jan-Hendrik Rootering and others; Mar 28

ROME

OPERA
Teatro dell' Opera di Roma Tel: 39-6-481601
● Don Quichote: by Massenet. Conducted by Alain Guingal, performed by the Opera di Roma. Soloists include Ruggero Raimondi, Anna Caterina Antonacci and Alain Vernhes; Mar 27

THESSALONIKI

CONCERT
Thessaloniki Cultural Capital '97 Tel: 30-31-867860-6
● Virtuosi of Prague: with conductor Alexander Rahbari, soloists R. Musoleno, J. Ivanovic, D. Georga, C. Baylcy and the Prague Chamber Choir perform works by Rossini and Dvorák, at the State Theatre of Northern Greece; Mar 28

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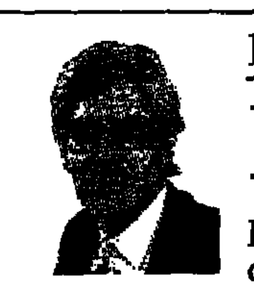

Edward Mortimer

Identity crisis

Britain's general election offers a clear choice on constitutional issues of great long-term importance

This time it's not the economy, stupid. If headlines and opinion polls mean anything, British voters are about to throw out a government which has managed the economy unusually well – mainly, no doubt, because they see no convincing evidence that their wallets are more at risk from one result than from another. Election promises and accusations are confusing, as always. But the headline news is that in economic policy Labour would not change anything much.

So does it boil down to a simple choice between old and new faces. The answer is no. On two issues, the European Union and the constitution, there is a clear difference of approach between the parties.

These issues may not be the ones on which voters make up their minds, but should be. Indeed, it is an unusual luxury for voters to be offered a clear choice on two such important issues without having to be confused by short-term economic considerations.

What is more, the two issues are really one because the EU is above all a constitutional matter. Mr Robin Cook, the shadow foreign secretary, directly linked the two in his interview with the Financial Times two months ago when he said the Conservative party had "repositioned itself as the party of English nationalism, accusing us of both giving Scotland to the Scots and being soft on Brussels".

Both issues concern the distribution of authority between different levels of government; and behind that apparently technical problem lie deeper questions about identity and loyalty.

It is pleasing that the two main parties' official protagonists on Europe – Mr Cook and Mr Malcolm Rifkind, the foreign secretary – are both Scottish MPs who have long been involved in the devolution debate.

As it happens, Mr Rifkind himself was a devolutionist long ago, while Mr Cook has in the past been seen as a Eurosceptic. But each now represents what has become his party's mainstream position on both issues.

Mr Rifkind holds that British sovereignty can be preserved only by concentrating all decision-making power in Westminster and Whitehall. Decentralisation, and the recognition of Scotland's specific institutions and culture, may be good. Co-operation among EU states is good. But power must only be exercised by Whitehall and its emissaries – be they Mr Michael Forsyth, secretary of state for Scotland, in Edinburgh, or Mr Rifkind himself at council meetings in Brussels.

Mr Cook, with the rest of his party, is firmly committed to a Scottish parliament with tax-raising powers, subject to confirmation by the Scottish people (but not the rest of the UK) in a double referendum.

On Europe – as on some other aspects of the constitution, such as regional government in England – things are a bit fuzzier. Mr Cook echoes Mr Rifkind in ruling out removal of border controls, as well as majority voting on foreign policy or justice and home affairs. Both parties are officially keeping their options open on the single currency, while promising a referendum if they do decide to go in.

But the difference of emphasis is clear enough. Mr Kenneth Clarke, the chancellor and leading Tory defender of the single currency, looks increasingly isolated. He will do so even more in the next parliament, when many moderate Tories will have been replaced by rightwing Eurosceptics.

On the Labour side it is the Eurosceptics, such as Mr Tony Benn and Mr Peter Shore, who are ageing and isolated, while the newcomers are likely to be disciplined supporters of Mr Tony Blair.

Mr Blair as prime minister would thus have considerable freedom to reach agreements with his European partners, and sell the result to his party as on balance good for Britain. Mr John Major, by contrast, has virtually had to renegotiate every position with Eurosceptics in his own party since 1992.

So on May 1 British voters have to choose between electing a parliament that will retain power in its own hands and one that will acquiesce in some delegation of powers both "upwards" to Brussels and "downwards" to other elected authorities within the UK. Such delegation is not legally irreversible but is virtually so in practice.

It is very hard to imagine a Scottish parliament being abolished by fiat from Westminster once it comes into existence; and Britain cannot unilaterally revoke EU legislation except by leaving the Union altogether.

What is at stake, ultimately, is the very nature of national identity. The Conservatives articulate a view of Britain as a single nation to which UK citizens owe an exclusive loyalty – although they have had to make an exception for the Irish identity of the minority in Northern Ireland. Labour and the Liberal Democrats seek to give institutional recognition to other identities – including other national identities in Scotland and Wales – which they see as quite compatible with British citizenship.

By the same token they argue, at least implicitly, that British national identity is quite compatible with European citizenship. Indeed, British people have been nominally EU citizens since the Maastricht treaty came into force in 1993. But that concept means little without a sense of European identity to underpin it.

Such an identity is perhaps more readily accepted by those who are used to thinking of themselves as Scottish or Welsh as well as British, than it is by English people who call themselves English or British without even noticing the difference.

EU opponents: Robin Cook (left) and Malcolm Rifkind

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

UK is already largest overseas supplier to the US military

From Mr William J. Crowe Jr.

Sir, It is good news that a UK company has won an important order to supply light-towed howitzers to the US military. But Bernard Gray's statistics ("US forces set to buy British light artillery", March 17) inaccurately suggest this is an exceptional event.

In fact, Britain is the largest overseas supplier of military equipment and components to the US military. At the American embassy, we are currently monitoring and managing Department of Defense (DOD) contracts with 230 UK companies for direct defence procurements valued at $2.7bn (almost three times the backlog cited in your article). Further, we estimate that contracts valued at another $500m-$700m are monitored directly by DOD from the US.

Also, the article takes no account of the value flowing to the UK as a result of the UK industrial participation policy. This policy artificially forces a US company selling to the UK Ministry of Defence to provide defence-related work or technology equal to 100 per cent of the contract value, of which 50 per cent must be directly related to the procurement programme. (We impose no such requirements on UK companies selling to US forces.) The UK MoD monitors industrial participation compliance. To date, every US company on contract for a UK defence programme is meeting its participation obligation.

The US defence market remains open to competitive British exporters.

Recent US competitions in both air-to-air missiles and the light-weight artillery programmes demonstrate that major US defence procurements are open and that contracts are awarded on merit and not politics.

While contract awards are episodic, underlying the headlines is a long-standing defence trade between the US and the UK that is healthy and reasonably well balanced.

William J Crowe Jr,
ambassador,
Embassy of the United States of America,
London W1,
UK

The place for ethics

From Mr Peter Wilkinson.

Sir, I was interested to read your editorial "Tobacco ethics" (March 24) which seems to go further than your financial columns do on such matters. It raises t interesting question as to what degree financial journalists should comment from an ethical standpoint in their financial reviews o tobacco companies or other companies which are involved in such areas of questionable business.

I may be wrong but I believe that the most recer review of BAT results by t FT commented favourably on the company's performance and its prospects in Asian markets. There was no mention of any ethical implications about the effe of tobacco on on the popul tions of the Far East.

Peter Wilkinson,
1 Vernon Road,
East Sheen,
London SW14 8NH, UK

Proposal reveals euro is vital to France

From Mr Francis Woehrling.

Sir, Professors Modigliani and Baldassari argue that the other Europeans should go ahead with the euro without Germany (Europa column, March 14).

Unfortunately, they weaken their point by arguing that the French-led European Central Bank should conduct a more expansionary policy than the Bundesbank and back up the depreciating euro by "an accord between trade unions and employers ... to prevent the devaluation translating into an inflationary spiral".

With this condition, the authors give their proposal away: a country that was forced to lower the retirement age of its bus drivers to 50 is unable to deliver on the wage front, especially when employment is high, the *"Grandeur de la France"* notwithstanding.

France, more than any other country, needs the euro gradually to reshape its socio-economic order and to adjust to international competition. And there ought to be also some thoughts about the wisdom of an oligopolistic fight between the ECB and the Bundesbank.

Francis Woehrling,
33 Boslaan,
3090 Overijse,
Brussels,
Belgium

Beautiful Budongo

From Dr Tim Davenport.

Sir, Eleven years since t stabilising influence of Yoweri Museveni's Nation Resistance Movement took power in Uganda (and almost 18 years since Idi Amin's "departure"), it is commendable that much-needed international touri is finally being promoted i one of Africa's most beaut ful countries.

However, it is regrettabl that Michael J. Woods ("T Pearl Of Africa", March 1: 16) did not notice the nam of the forest reserve he so glowingly described. At almost 800 sq km, Budong is the largest remaining a of natural rainforest in Ea Africa and is of inestimab value to local people, cons vation and commercial fo estry. For stunning plant and animal life, I would strongly recommend a vis Anyone hoping to see Budango, however, may b disappointed.

Tim Davenport,
386 York Way,
London N7 9LW, UK

Easy to find alternative view of the UK

From Mr Geoff Crocker.

Sir, Michael Prowse's celebration of a better Britain after six years in the glorious US praises change which has swung UK society towards the American private sector model and away from its more societal European roots ("Back home in a better Britain", March 15/16).

He praises Britain's infrastructure, underground, roads, service ethic, schools, employment, economic strength and general privatisation, all of which is incidental to his core pleasure with the prevailing ideology.

For an alternative view, it only takes a couple of rides on the Paris RER, German U-Bahn, or indeed Moscow metro to see London Underground's shortcomings.

The deterioration in the UK's *social* infrastructure since 1979 has seen income distribution shift to leave the share of the lowest 20 per cent of income earners down from 9 per cent to some 6 per cent of national income, prisons filling with women failing to pay television licences, and rising crime on our low-income housing estates.

As for the bounding economy, creation of a low-wage manufacturing outpost for Japanese, Korean, German and American capital hardly reads as a great achievement for the British economy.

BMW may well be able to run Rover, Fujitsu manage ICL, and Northern Telecom run STC better than British management. And Samsung, Toyota, Honda, LG Semiconductors, Hitachi, Siemens and ABB may be more prepared to commit to new investment in the UK than GEC. But why?

Is it that they come from a more successful model and therefore essentially transfer *their* success to the UK?

Welcome back, Mr Prowse, but where *have* you been?

Geoff Crocker,
Eastwood Lodge,
Falfield,
Wotton under Edge,
Glos GL12 8DE, UK

Licence to lap up profits

Geoff Dyer on the successful marketing of the late Ayrton Senna's brand name

Senninha celebrated his third birthday last week with a surprise party thrown by his many friends, a large chocolate cake and a big kiss from a leggy, blonde clown.

The birthday boy, one of Brazil's most popular children's cartoon characters, is based on Ayrton Senna, the motor racing driver whose death on an Italian race track is also nearing its third anniversary.

Senninha, or little Senna, is one of the star attractions of the company that licenses the image of the three-time world champion, whose fatal accident is the subject of a court case in Italy at present. With Senninha's help, the group expects to pile up a massive $100m of sales this year.

Basketball's Michael Jordan might have his lucrative contract with Nike and footballer Gary Lineker might make a small fortune from selling Walkers crisps. But the business empire that markets the Senna name on a range of luxury goods, many unrelated to sport, is a unique phenomenon in the marketing of a sports star.

What makes the group even more unusual is that it is owned by a charity, the Ayrton Senna Institute, which invests all the profits in projects to help disadvantaged children.

The magazine featuring Senninha, which sells 140,000 copies a month, is one of three parts to the company. Another markets conventional memorabilia for racing fans, including books, videos and clothes.

The third and most unusual division is responsible for licensing the red and black Senna trademark on items such as yachts, watches and sunglasses.

The group hopes to sell 10,000 Senna pens this year, including a new design manufactured by the Italian company Montegrappa which will cost more than $150.

A range of Senna bikes, which is already sold in Europe and Japan, is being launched on the Brazilian market this year. Some 200,000 customers carry a credit card boasting the image of the man who has become the James Dean of motor racing.

Celso Lemos, a director of the institute and the man who runs its business interests, says that the licences are strictly focused on upmarket products. "If you sell lots of cheap articles you will dilute the image," he says.

Although the products sell throughout the world, there is a uniquely Brazilian quality to the canonisation of Senna. Brazilians idolise successful sports people in a way that few countries can match, and in the list of popular favourites Senna is pipped only by Pelé.

His sister, Viviane, dates the start of the Senna phenomenon to 1986. On the same day that Zico, another of the country's greatest sporting heroes, missed a penalty kick against France that put Brazil out of the football World Cup, Senna won a grand prix against arch-rival (and Frenchman) Alain Prost.

On his lap of honour he plucked a Brazilian flag from the crowd, a symbol that at the time most Brazilians associated with the recently departed military regime. "He brought pride back to the national flag," says his sister.

Senna was not universally loved in motor racing. But few denied his dedication and professionalism, precisely the virtues Brazil appeared to lack during his period of prominence, when the country was mired in successive scandals over political corruption, deforestation of the Amazon and the murder of street children by police officers. For a people who had seen many false heroes, Senna seemed to be the genuine article.

"Ayrton gave a sense of value back to the country at a time when the image was very negative," says Viviane.

On the day of his fune tens of thousands of mo ers lined the streets of Paulo to watch the pro sion, while an elite air f team flew overhead.

A deeply religious m Senna mentioned to his ter two months before death that he wanted to some of the proceeds f Senninha towards childr charities. As a result family founded the insti in November 1994.

Boosted by booming sa the institute plans to do $4m to charities this y and hopes to spend $ during the next three ye It is involved in 18 sepa projects, in 11 Brazil states, which involve 40 children.

Some of the schemes designed to improve nu tion levels, for insta through distributing tin soup, and the institute g money for the treatmen young Aids victims.

Other projects are ed tional, including dance c ses for 280 street girls in north-eastern city of Fo eza and several sports grammes. The child involved only get to sport if they go to the c classes offered.

A few Brazilians t that the Senna family is ing in bad taste by exp ing commercially the in of its martyred son. Viv responds: "We are using association with Ayrto make a difference in country."

FINANCIAL TIMES

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Wednesday March 26 1997

The Fed takes charge

Mr Alan Greenspan again warned members of Congress last week that the Federal Reserve would act "promptly and pre-emptively" to see off inflation. And yesterday the words finally turned to action. The announced quarter of a percentage point rise in the federal funds rate, to 5½ per cent, is certainly pre-emptive. Whether it will also turn out to have been timely is another matter.

It was, at any rate, little surprise. Last week's warnings were the culmination of several months' careful preparation of the ground for a modest tightening of policy on the part of the Federal Reserve chairman. Investors may yet decide to be spooked by yesterday's decision, but the generally favourable initial response of financial markets suggests that Mr Greenspan's efforts have paid off.

All on the Federal Reserve policy-making committee have been keen to avoid a repeat of February 1994, when a pre-emptive move against inflation sent the bond market into a tailspin. But conditions then were very different. The US Federal funds rate, at 3 per cent, was unusually low: in effect, US short-term funds were the cheapest in the world. Today that honour belongs to Japan, with its half a percentage point discount rate setting the effective floor for global short-term money markets.

By the same token, the rationale for tightening policy three years ago was very different. At that time the central bank was merely looking to edge a very stimulative monetary policy to a more neutral position. Mr Greenspan had only needed to see one quarter of above-trend growth to judge that such a rebalancing was justified. Yesterday's move, by contrast, shifts the balance of policy clearly toward actively restricting growth.

Mr Greenspan has required more persuading to take this latter step, and rightly so. After all, the Federal Reserve has never wanted to be considered anti-growth: only anti-inflation. And even the most hawkish observers have to admit that prices have still to show much sign of responding to the continued buoyancy of demand.

It would be very good news for the US if it turned out that the economy could now sustain faster rates of non-inflationary growth than in the past. And certainly, there are signs that many of the old relationships between inflation and growth have changed. Yesterday's move does not prevent such a welcome discovery. It is merely a very modest – and sensible – insurance policy against the costs of over-optimism. The mark of the promptness of Mr Greenspan's action would be if it enables him to avoid taking further, more dramatic, steps to calm price pressures in the months ahead. With luck, it will do just that.

Fin de règne

President Mobutu Sese Seko's reign is ending as it began – with Zaire at war, in need of strong leadership, and the outside world wondering anxiously how it can help.

Yet one of the outcomes most feared by the international community, now as in the 1960s, seems less likely than it did a few months ago. Zaire is not breaking up. Mr Laurent Kabila, the rebel leader, is no longer seen as the catspaw of neighbouring states which wish to dismember Zaire. Even Shaba and Kasai, with their copper and diamond riches, are not talking of secession.

Mr Kabila's forces are still more than 2,000km from Kinshasa. Yet their advance seems inexorable, and when he says he expects to be there by June he is now taken seriously. Indeed neither the Zairean armed forces, nor the Serb auxiliaries Mr Mobutu so unwisely recruited, are putting up any serious resistance.

Instead they terrorise and loot each urban centre before abandoning it. It is this that the population mainly fears as the war sweeps westward. Most Zaireans are now looking forward to Mr Kabila's victory as a release which cannot come too soon. Even the political elite in Kinshasa argues about who should negotiate with Mr Kabila, not how to resist him; while the army commanders want only to shift the blame for the collapse.

In these circumstances it is hardly surprising that Mr Kabila rejects calls for a ceasefire before talks. Only the reality of a rapidly encroaching war will secure Mr Mobutu's agreement to a hand-over of power, and his own long overdue departure. Outsiders should not allow him to buy time: rather they should help secure such an agreement.

Unfortunately, external diplomatic efforts have so far been ill co-ordinated. East African leaders sponsor one process, the Organisation of African Unity another, the US and South Africa a third. The EU appoints its own representative. France, while paying lip-service to these efforts, muddies the waters with calls for a humanitarian military intervention, which will not be accepted because it looks like a last-ditch effort to save the Mobutu regime.

If outside powers really want to help, they should throw their weight behind a single mediator – Mr Mohammed Sahnoun, who already has a mandate from both OAU and UN, being the obvious candidate. Mr Kabila, for his part, must realise that the high hopes now placed in him by so many of his compatriots carry with them enormous responsibilities. He must aim to form a government of national unity, with the broadest possible ethnic and regional base.

Hybrid vigour

Toyota pleased environmentalists yesterday with the announcement that it is to mass produce a passenger car with an efficient low-pollution "hybrid" engine which switches between gasoline and electric propulsion, depending on driving conditions. It is the latest – and commercially perhaps the most convincing – sign that the motor industry is taking seriously the need to wean consumers away from the highly polluting internal combustion engines on which they have relied for the past century.

Another encouraging development recently was the unveiling by Daimler-Benz of a Mercedes saloon powered by fuel cells, which generate electricity from hydrogen and oxygen. Chrysler is also developing a fuel cell vehicle; it will not be ready for demonstration until 1999 but will have the great practical advantage of running on petrol rather than hydrogen.

At the same time, General Motors, Ford, and other auto groups are persevering with all-electric cars, powered by batteries. These may be fine for running around cities but their poor range and performance – and above all the long period taken to recharge them – mean that they are not well suited to general motoring.

If the environment is to benefit from the adoption of electric cars on a mass scale, society will have to compromise. That means abandoning – or postponing for several decades – the vision of an all-electric promised land in which so-called "zero emission vehicles" are the main means of personal transport. The latter should be aimed at short-range urban cars, while hybrid engines and fuel cells are promoted for the main motoring market.

The benefits are worth going for. Both Toyota and Chrysler promise that their new vehicles will deliver a 50 per cent improvement in fuel efficiency – or, putting it another way, a 50 per cent reduction in emissions of carbon dioxide. They will also cut substantially pollution from nitrogen oxides, which cause smog.

Several years of mass production will be required before hybrids can compete on price with a straightforward petrol engine. Fuel cells are less well developed and therefore further away from financial viability. So the world's governments will need to provide substantial support if the new technologies are to gain a secure foothold. In particular, air pollution controls will have to be tightened steadily and consistently.

But manufacturers must not rely on government regulation or subsidies. It is in their own long-term interests to make low-pollution cars an attractive and reasonable purchase.

A touch on the brakes

While the British economy is booming, measures to curb inflation are likely to be needed after the election, writes Robert Chote

People can be so ungrateful. UK growth is accelerating, unemployment is plummeting and earnings are rising faster. Yet wavering Conservative voters on whom the result of May's general election depend say they are becoming increasingly gloomy about the outlook for the economy.

This unfavourable conjunction is forcing the Conservative party into contortions. On the one hand, its campaign managers claim the economy is booming. But on the other, Mr Kenneth Clarke, the chancellor, claims to have abolished the boom-bust cycle for good. He sees no sign of the problems "which turned past booms into busts".

The current position looks a lot less threatening than that of the late 1980s, when spending by consumers and companies was fuelled by what – with hindsight – was clearly reckless borrowing. But there is gathering evidence that the domestic economy is starting to hit inflationary bottlenecks that will need to be addressed promptly by whichever party emerges victorious in a little over five weeks.

The belief that the brakes will have to go on after polling day may help explain why opinion polls show the "feelgood factor" is continuing to slip among wavering Tories.

Economic growth has been on an erratically rising path for the past two years. On Monday the Office for National Statistics revised its estimate of growth between the third and fourth quarters of 1996 up from 0.7 to 0.8 per cent, excluding North Sea oil and gas production. On past evidence, growth this strong cannot be sustained for long without pushing inflation higher.

The economy's momentum is also reflected by the recent dramatic falls in unemployment. The jobless total has been falling by 60,000 a month since last autumn, a rate of decline only part of which can be explained by the introduction of stricter rules on entitlement to benefits.

Unemployment stood at 6.2 per cent of the workforce in February, below most estimates of the "natural rate" which is consistent with stable inflation. But for now at least inflation remains quiescent.

In the year to February, retail prices – excluding mortgage interest payments – rose by 2.9 per cent. This is low by the standards of previous upturns although slightly above the government's medium-term target of no more than 2.5 per cent.

Mr David Walton, at Goldman Sachs, explains why this leaves no cause for complacency, however: "The recent and prospective decline in retail price inflation is due almost entirely to the appreciation in sterling over the past year."

Sterling's 16 per cent rise against a basket of currencies since last summer has reduced import prices and helped cut the cost of industry's raw materials by 6.6 per cent in the year to February. Falling food prices also help explain why the underlying rate of retail price inflation fell below 3 per cent last month.

But in those parts of the economy sheltered from the effect of the exchange rate, the picture is less reassuring. Inflation in the service sector has crept from 2.2 to 3.3 per cent since April last year and on some measures it is approaching 4 per cent. Service sector companies also report less spare capacity and more trouble finding skilled labour than at any time since the late 1980s, whereas manufacturers – relying far more on overseas markets for sales – are under much less pressure.

Trends in output growth and earnings paint a similar picture. Factory output rose by 0.7 per cent in the year to the fourth quarter of 1996, while service sector output rose by 3.6 per cent. Growth in average earnings has doubled in the service sector since mid-1995, but increased by less than a quarter for factory workers.

"These sectoral imbalances are likely to increase over time rather than diminish," argues Mr David Mackie at J.P. Morgan. "Unless the overall growth rate slows down sharply, its unbalanced composition will create further inflation pressures."

Much depends on what happens to sterling and to upward pressures on pay. Mr Walton argues that the pound is being held aloft by the strong dollar and he would expect to see the pound fall 8 per cent from current levels as the dollar weakens. This should help revive the struggling manufacturing sector but also push inflation back above 3 per cent next year – higher still if nothing is done to take the steam out of domestic spending.

Last week's news that average earnings growth jumped to an annual rate of 5 per cent in January prompted expectations of an interest rate increase shortly after the election. It was blamed in part on bonus payments in the service sector, but it may also suggest the authorities have overestimated the amount of slack in the economy and that the labour market is tightening too quickly for comfort.

The Bank of England is likely to push for higher rates whichever party wins on May 1. But if a rise in borrowing costs pushes sterling higher, this may make the upswing even more unbalanced by weakening the sector of the economy that is already weakest.

The alternative is to raise taxes, which has the added advantage of reducing the stubborn budget deficit. This may be politically unattractive in the short term, but it may be the best way to ensure today's nascent boom does not become tomorrow's bust.

Uncertain year for Britain's boardrooms

"Very respectable in a business this large and mature," said Mr Eric Nicoli, chief executive of United Biscuits, the snacks company, in a comment on his group's 1996 results.

His words might also be a summary of the condition of the UK economy, as seen from Britain's boardrooms. While some companies are rather more optimistic and others noticeably more cautious, the overall view is that 1997 should bring further economic growth, with moderate gains in sales and profits. James Capel, the stockbroker, forecasts that pre-tax profits could rise 7.5 per cent in 1997, after 13 per cent last year.

But companies admit the going will not be easy. Very few groups have reported evidence of any surge in consumer spending. At best, they have spotted pockets of growth, notably in London and the south-east where big City bonuses are filling restaurants and raising house prices.

Moreover, there are fears that a likely rise in interest rates after the election could dampen domestic demand while the continuing strength of sterling will depress exports. "Although the UK economic environment remains positive, we see the pace of growth slowing in 1998 and are adopting a more cautious approach to lending," says Lord Alexander, chairman of National Westminster Bank, in his 1996 results statement.

Or as Mr Andrew Robb, finance director of Pilkington, the glassmaker, puts it: "The UK economy is not outrageously buoyant, but it is reasonable. We anticipate slow growth for the next year."

Consumer-oriented companies are finding demand is patchy. While sales volumes are good – bearing out economists' reports of strong demand – prices and margins are under pressure.

"Overall, psychology seems more important than the money in people's pockets. There is still a degree of uncertainty," says Mr Neville Bain, chief executive of Coats Viyella, Europe's largest clothing and textiles company.

Kingfisher, the retailer which owns Woolworths, B&Q home improvements centres and Comet electrical stores, is also cautious, despite reporting a 25 per cent increase in pre-tax profits to £388.7m for 1996. Sir Geoffrey Mulcahy, chief executive, says the market is sluggish.

Mr Tony Greener, chairman of Guinness, the drinks group, is more upbeat: "The economy is in pretty good shape, with consumers spending money on going out." Nevertheless, pre-tax profits grew only 5 per cent last year, after adjustments for exceptional items.

The big exception to domestic sluggishness is in the housing market in the south-east, where rising prices are prompting a construction revival. Mr Dennis Webb, chief executive of Beazer, the housebuilder, says: "Bricklayers are becoming impossible to find in parts of south-east England."

However the market still remains fairly subdued north of a line through Nottingham, says Mr David Wilson, chairman of rival housebuilder Wilson Bowden.

Nevertheless, the overall increase in activity has been enough to bring increases in building materials prices, with Blue Circle and Rugby, the cement makers, recently raising prices 8 per cent to 9 per cent.

By contrast, groups producing bulk products for international markets have been hit by weak demand and sterling's strength. Imperial Chemical Industries reported a 30 per cent decline in profits, blaming "a major cyclical downturn".

British Steel, which closes its books at the end of this month, is accelerating job cuts because of sterling.

But other exporters had a bumper 1996, notably engineering groups which sell less on price and more on product sophistication. TI, for example, reported a 26 per cent gain in pre-tax profits to £232m, after protecting itself from sterling's rise with financial hedges. However, the outlook for 1997 looks more difficult even for engineers, with margins coming under pressure as currency hedges start running out.

In other words, 1997 is proving a tricky year in which to do business, even without election uncertainties.

Stefan Wagstyl

Additional reporting by Jenny Luesby, Andrew Taylor and Ross Tieman

· O B S E R V E R ·

Flirting with Fidel

■ Last week Cuba's veteran president, Fidel Castro, was talking about dying in battle. This week he has turned his attention to love. Communist youth weekly *Juventud Rebelde* has published a full-page interview under the banner headline: "Exclusive. Fidel talks about love."

Asked by a panel of female interviewers if he still falls in love, the 70-year-old Comandante confesses: "I am eternally in love with the feminine sex. I fall in love easily, but more platonically now." He goes on to reveal that he always preferred to court women than be courted by them, that Cuban women are "very sweet", and that "indifference is the most stimulating tactic in love".

Despite the secrecy that shrouds Castro's private life, it is known that he was married once, from 1949 to 1955, and had a son from this union. It is also public knowledge that he fathered several children out of wedlock; his daughter Alina, born of a romance with Cuban actress Natalia Revuelta, has publicly broken with her father and now lives in exile in the US.

But even if he's lost some of his amorous drive, Castro has kept his sense of humour. Asked if he thinks Cuban men are tender, the eternal revolutionary replies: "Well, I couldn't say. I've never had a Cuban boyfriend."

Car trouble

■ The arrival of Formula One's motor racing circus has become an annual rite of the Montreal summer, drawing huge crowds and injecting an estimated C$70m into the city's flagging economy. But the roar of engines and the buzz of excitement could soon fade; a Senate committee is chewing over proposals that would stub out tobacco advertising at sporting and cultural events.

Opponents worry that if the bill becomes law, tobacco companies will simply pull the plug on events at which they cannot parade their names and logos. Organisers of US Indy car races have already threatened to slam the brakes on races in Toronto and Vancouver. Unlike similar Australian legislation, the restrictions would extend to foreign tobacco products not sold in the country; in all 11 tobacco-sponsored Indy cars would be prevented from appearing on Canadian circuits.

Since tobacco companies dish out C$60m a year – about 30 per cent of all corporate sponsorship in Canada – it's not just motor sport that's under threat. The unlikely alliance opposing the bill includes tobacco companies, artists, sporting and cultural figures. And they're fuming.

Pour it again

■ In the old days, people used to drink to forget. But a new study from France – where else? – claims that a few glasses of wine a day actually helps to stave off memory loss. Respected medical research institute Inserm studied nearly 4,000 pensioners from the Gironde-Dordogne region. It found that moderate drinkers – indulging in three or four glasses a day – were much less likely to suffer from senility or Alzheimer's disease than "petits buveurs" or teetotallers.

"While this doesn't prove that one must get sozzled to avoid Alzheimer's or that preventive drinking should be recommended," said Professor Jean-Marc Orogogozo, "it does show there is no reason to stop the over 65s from drinking moderately."

Pressing work

■ Rod O'Donoghue, outgoing finance director of distribution group Inchcape, is starting a second career as a genealogist and author; his first book, a history of the O'Donoghue name, is due out within the next 12 months.

Published by the County Clare-based Ballinakella Press, the 100-page volume will trace some of many O'Donoghue lines which trace their roots back to the gaelic Donnchdha's (pronounced something like 'dannagha') from the west of Ireland.

Further volumes are planned once O'Donoghue gives up the duties of finance director in July. An Internet site – *histgen.demon.co.uk* – is already up and running for distant compatriots curious about their ancestral roots.

Rebel roar

■ The Alliance of Democratic Forces for the Liberation of Congo-Zaire, the rebel group sweeping across Zaire, has started stamping its official documents with a roaring lion – in memory, no doubt, of the Simba (Lion) rebellion of the 1960s in which Alliance leader Laurent Kabila cut his revolutionary teeth.

But the Alliance lion is no ordinary big cat; anyone who's seen Walt Disney's cartoon feature film *The Lion King* will immediately recognise its main character. The question is whether Disney will sue if the rebels' behaviour turns out to be less than heroic? You've seen the movie, now join the rebel movement.

Financial Times

100 years ago

Trouble in Uruguay

There were two main causes of the economical disturbance in Uruguay last year, and, unfortunately, both are still operative. One was the plague of locusts; the other the political trouble, which during the autumn of the year culminated in fighting in the provinces. The wheat harvest was very poor and was not compensated for, as in Argentina, by a very large increase in the maize crop. The year opened well enough, the first quarter showing a fair advance in both imports and exports. In the second quarter the exports diminished by nearly one-half.

50 years ago

Output Of Ships

Great Britain and Ireland last year launched [illegible] per cent of the world's output of shipping. [illegible]

FINANCIAL TIMES
Wednesday March 26 1997

Toyota car to run on petrol or batteries

By Michiyo Nakamoto in Tokyo and John Griffiths in London

Toyota yesterday said it plans to become the first global carmaker to mass-produce a 'hybrid' passenger vehicle with both a petrol engine and an electrical power supply provided by an electric motor, generator and batteries.

The technology, which would help reduce urban pollution because the car could run almost exclusively on battery power in cities, has been developed in various forms by virtually every big carmaker.

But the extra cost of installing two drive systems and the higher prices that would have to be passed on to consumers have dissuaded manufacturers from commercial production.

If Toyota has been able to narrow the costs gap to make commercial production viable, it would pose a serious competitive threat to European and US carmakers.

Toyota would not comment on its planned volume of production, or the likely asking prices for the hybrid. However, it said the decision to market the vehicles was strategic and that prices would not be 'significantly' above that of cars carrying a conventional engine.

Mr Takaki Nakanishi, industry analyst at Merrill Lynch in Tokyo, said pricing and volume were the keys to the success of the new system.

Toyota's hybrid will incorporate a 1,500cc petrol engine. This will propel the car at normal highway speeds, simultaneously charging the batteries via the generator. In cities, the batteries can be used in isolation to provide pollution-free power.

Should the batteries run low, the petrol engine can top them up – thus avoiding the problems of restricted range and long recharging periods associated with all-electric cars.

Toyota said its system would reduce carbon dioxide emissions by half and other emissions including nitrogen oxide by one-tenth of average levels in conventional vehicles.

The system is also substantially more efficient in terms of overall petrol consumption.

Production is due to start within a year.

Analysts welcomed Toyota's move as a positive step in the quest to develop more ecologically sound vehicles.

"In terms of fuel efficiency and environmental friendliness, this is a significant step in moving towards non-emission vehicles," said Mr Nakanishi.

A feature of Toyota's system, like many other prototype hybrids, is that it raises fuel efficiency by recovering energy lost in vehicles with conventional engines. It does this by storing in the batteries, via the generator, the energy normally lost in braking.

Editorial Comment, Page 21

Nomura's HQ raided in probe of suspected gang links

By William Dawkins in Tokyo

Prosecutors yesterday searched the Tokyo headquarters of Nomura Securities, Japan's largest stockbroker, after suspicions that the group had been channelling cash to a property company connected with gangsters.

Soon after the stock market closed 180 public prosecutors and officials of the Securities and Exchange Surveillance Commission, the stock market watchdog, trooped into the group's offices.

The raid is of ritual rather than crime-busting significance as it was aired in the Japanese media well in advance and Nomura's share price dropped by Y20 to Y1,440 ($11.70) in anticipation.

But government officials fear that the latest evidence of wrongdoing at Nomura could have wider repercussions - deepening the public's already wide mistrust of Japanese stockbrokers.

This comes just as the government is preparing legislation to boost the Tokyo capital markets' efficiency and entice investors back to Japanese equities.

Yesterday's raid could presage a wider inquiry in an attempt to persuade the markets that the government is serious about fighting financial corruption.

Police also raided the Tokyo homes of two senior Nomura executives and a known corporate extortionist or sokaiya – a racketeer who demands payment from companies in return for keeping things quiet at shareholders' meetings.

Nomura admitted three weeks ago to making "apparently irregular" payments to a client. The two managing directors responsible were fired, and the president, Mr Hideo Sakamaki, resigned along with two other board members.

Nomura, which is running an internal inquiry, said it would co-operate with the SESC investigation.

The scandal, the second of its type at Nomura in the past six years, is a reminder of the failure of attempts to purge Japanese business life of the corruption that was endemic in the boom years of the 1980s.

It has also driven away some of Nomura's institutional investor clients, as a result of which Standard and Poor's, the US credit rating agency earlier this week downgraded the company's credit outlook from stable to negative.

If the SESC inquiry yields evidence that Nomura has contravened a commercial code banning payoffs to sokaiya the company could face legal penalties, including a temporary ban on doing business.

THE LEX COLUMN

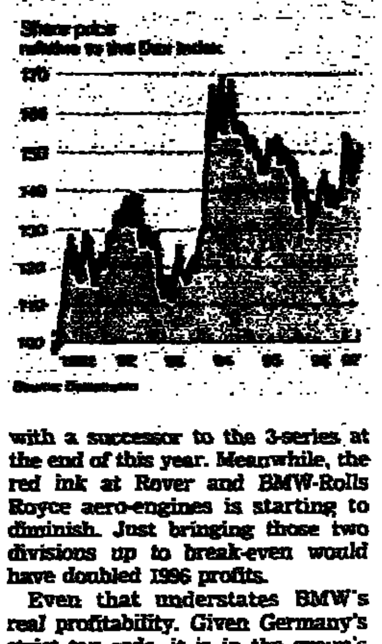
Greenfingers

The US Federal Reserve has a reputation for doublespeak, but investors cannot claim that they were not warned of yesterday's interest rate rise. The subdued bond and equity market reaction to the 25 basis point rate increase demonstrates the gulf between yesterday's well-flagged statement and the shock move in February 1994.

Investors have concluded that yesterday's pre-emptive rise does not signal further increases, but they would be unwise to bank on it. The "goldilocks" economy – neither too hot nor too cold – has lasted thus far because faster economic growth has been off-set by the strong dollar, subdued consumer demand due to job insecurity, and a highly competitive retail environment. But wage pressure is demonstrably increasing. And while there have been plenty of premature predictions of the death of inflation, there are no precedents for one small rate rise subduing the tail end of an economic upswing.

That said, real interest rates are already around 2.75 per cent, whereas in February 1994 they were zero. This pre-emptive move is taking place after a long period of fiscal restraint, so huge increases should not be necessary. Bond investors should therefore be reassured. Equity investors, however, are in for a rougher ride. Bond/equity yield ratios look stretched, while forecasts for earnings growth look aggressive. Moreover, when the Fed warned of "irrational exuberance" last December, the Dow Jones Industrial Average was considerably lower.

FTSE Eurotrack 200: 2168.1 (+20.4)



BMW

BMW's share price has been accelerating more rapidly than its cars of late. Over the past 18 months it has almost doubled, comfortably outdistancing a buoyant German stock market. Among Europe's big six car makers, only Volkswagen and Daimler-Benz have managed to keep pace and both of those have been recovering from heavy losses.

BMW, by contrast, has never lost money. Its growth, underlined by a 21 per cent increase in profits to DM669m last year, has been driven by smart product development. Successes such as the new 5-series and the Z3 roadster pushed car sales up 9 per cent last year, when the global market grew by 3 per cent. And the group is planning to launch at least two new models a year, starting with a successor to the 3-series at the end of this year. Meanwhile, the red ink at Rover and BMW-Rolls Royce aero-engines is starting to diminish. Just bringing those two divisions up to break-even would have doubled 1996 profits.

Even that understates BMW's real profitability. Given Germany's strict tax code, it is in the group's interest to minimise profits through conservative accounting. Strip that away and margins are probably nudging double figures against the 3 per cent it declares. That would make it Europe's most profitable car manufacturer, to Daimler's chagrin. On that basis, a multiple of 4½ times enterprise value to 1997 earnings before interest, tax and depreciation – against six times for its arch-rival – does not look dear.

Pilkington

Last summer Pilkington was expected to produce profits of £250m in its current financial year. Now the glassmaker will make barely half that. Investors, who have seen the shares underperform the stock market by 40 per cent since a £300m rights issue in October 1995, must be wondering what shards they will step on next.

Trading conditions, to be fair, have been horrible. European glass prices have dropped a quarter in 18 months as rivals have brought new production onstream while Pilkington, sensibly, has mothballed capacity. Attempted price increases have failed and sterling's strength is not helping either. As a result, annual cost savings of £70m have been swallowed up by price deflation of £100m and more. But Pilkington's management has made two mistakes. The first is to sell itself to the City as a value-added manufacturer when, quite patently, it remains a commodity business with little control over its own destiny. Second, it has not cut deep enough, fast enough. Despite four years of apparently vigorous rationalisation under Mr Roger Leverton, chief executive, Pilkington remains less efficient than rivals like St Gobain. The nub of the problem is Germany, a quarter of turnover, where some old, overmanned plants are running at just 30 per cent of capacity. Until Pilkington really gets to grips with its German cost base, by closing factories and shifting production to cheaper locations, any recovery hopes will remain just that.

P&O

Is it time for Lord Sterling, P&O's chairman, gracefully to bow out? This may seem an odd notion; after all, yesterday's results, if flat, were a touch ahead of analysts' expectations. And more importantly, Lord Sterling has recently pulled off some distinctly shareholder-friendly joint ventures. This was essential emergency surgery for which he deserves credit and for which his contacts and experience made him ideally equipped. Yet a good surgeon is not always the right man to nurse a patient back to health. The biggest question-mark rests over Lord Sterling's view of P&O's long-term future.

Though bits are having to be cast out like sandbags from a balloon, the basic aim seems to be to preserve the empire broadly intact. This covers a pretty eclectic list – an excellent cruise business, part-holdings in big ferry and container joint ventures, a miscellany of smaller operations and a hefty chunk of property. That vision raises two problems. For one, such a group is always likely to attract an investment-trust style discount. For another, it is difficult to believe many investors really share Lord Sterling's enthusiasm for coupling a transport business with a big bank of investment property.

Such debates, once shareholders get over short-term relief at last year's deals, are bound to resurface. Lord Sterling may just plan to weather them. Yet would it not be better, by establishing a clear succession plan now, to arrange an exit while he is still ahead?

See additional Lex comment on Pru/ScotAm, Page 29

Emu delay suggested

Continued from Page 1

negotiation of the Maastricht treaty.

Mr Dini insisted that Italy would be among the core countries able to meet the Maastricht targets for entering Emu, but left open the idea of a delay: "I have not asked for one more year, and Italy will not seek this. But one more year would have been useful for all countries."

The centre-left Italian government, struggling to agree an additional budget to correct its 1997 deficit, fears being left out of a northern-dominated zone of monetary union.

However Mr Hans van Mierlo, the Dutch foreign minister who holds the rotating EU presidency, remarked: "Emu without the lira is inconceivable."

Taiwan pig slaughter

Continued from Page 1

persistent trade deficit with Japan, which amounted to US$1.4bn last year.

The government was criticised for being slow to act after reports that cases had been detected late last year. Agriculture officials blamed illegal imports from China for the outbreak. By yesterday, 389,171 hogs had been destroyed.

The industry may find it difficult to recover because Taiwan's expected entry into the World Trade Organisation will spell the end of high tariff barriers.

Eurotunnel rules out redesigning freight wagons

By Virginia Matthews and Charles Batchelor

Eurotunnel, the Channel tunnel operator, will announce next month that it has ruled out redesigning the semi-open wagon system used for freight traffic on its trains, despite fire brigade claims that the design increased the ferocity of a serious blaze in November.

In an internal report which Eurotunnel will make public soon after Easter, the company will recommend "common sense changes" to safety systems and a series of equipment enhancements.

But it is understood to give a "largely clean bill of health" to the tunnel's safety procedures.

Eurotunnel's findings will be followed by a report from the Anglo-French Channel Tunnel Safety Authority, CTSA, which has the power to force Eurotunnel to make changes before it allows it to re-start its freight shuttle service.

It is understood that Eurotunnel is "not expecting" any recommendations to enclose the wagons from the CTSA, although it is likely that both fire detection systems and evacuation procedures will come under intense scrutiny.

The use of semi-open wagons has been controversial since well before the Channel Tunnel opened for business in January 1995.

However, the Eurotunnel report is understood to quote "sound engineering reasons" for choosing the so-called lattice-work system instead of full enclosure. The bodywork of the freight shuttles has an open lattice-style structure – unlike the fully-enclosed passenger shuttles.

The semi-open design was chosen to reduce the weight of the wagons and allow fully-laden lorries to be carried, although it also allows the draught created by the speed of the train to fan the flames of a fire.

But the Kent Fire Brigade, which helped tackle the blaze, said that "the reservations expressed by ourselves and others over the semi-open system were largely overturned because of commercial considerations."

Mr Robert Malpas, co-chairman of Eurotunnel, said the November fire had cast an unfairly harsh spotlight on the company's safety record.

"It must be looked at in perspective. No-one was seriously injured and no-one died."

The report is expected to go into detail about how the fire started, but is not thought to recommend any significant expansion of the list of goods banned from transportation.

The inquiries into the fire have been investigating possible causes including arson, a spontaneous truck engine fire or a fire in a flammable cargo. Security staff reported that a truck was ablaze before the shuttle entered the tunnel.

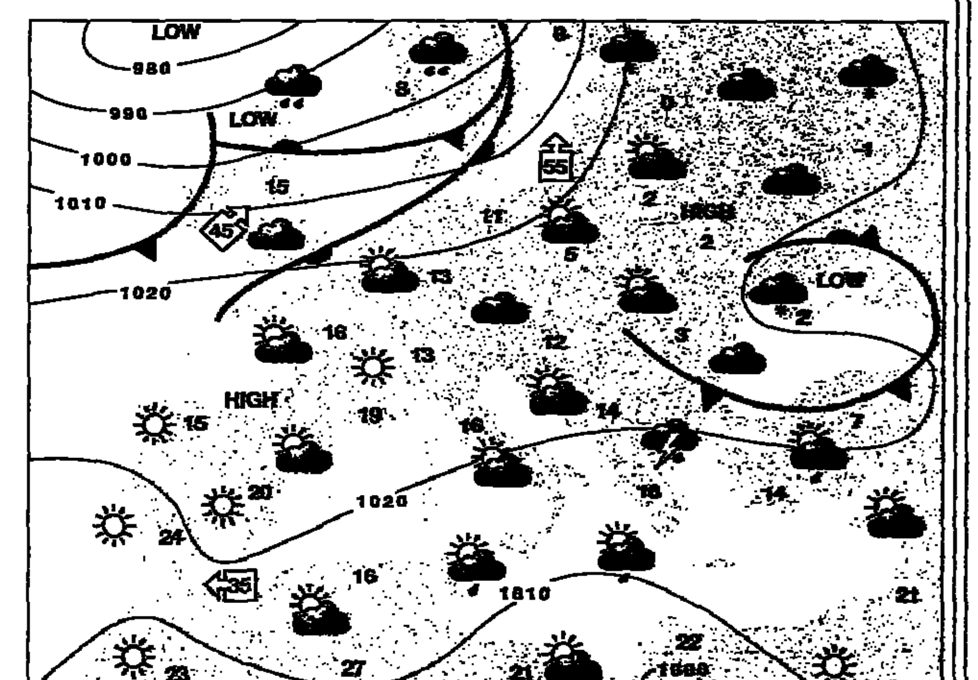
FT WEATHER GUIDE

Europe today

North-west regions will have wind, cloud and rain. Scandinavia will be cloudy with plenty of rain. The Norwegian fjords will have a number of showers. There will be near gale force winds in the Baltic Sea. Southern Europe will have several showers and thunderstorms. The Greek islands will have the most rain. Most parts of central Europe will have plenty of sunshine.

Five-day forecast

North-west Europe will stay unsettled with strong westerly winds, cloud and showers. By the end of the week, a high will build over the British Isles. This will push cold air into the continent. Egypt will have severe thunderstorms.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 18	Caracas	fair 29	Faro	sun 22	Madrid	sun 22	Rangoon	sun 36
	Celsius	Belfast	rain 11	Cardiff	cloudy 14	Frankfurt	cloudy 13	Majorca	fair 18	Reykjavik	snow 1
Abu Dhabi	cloudy 26	Belgrade	fair 11	Casablanca	cloudy 17	Geneva	sun 16	Malta	shower 20	Rio	fair 29
Accra	thund 30	Berlin	cloudy 12	Chicago	fair 9	Gibraltar	shower 20	Manchester	cloudy 13	Rome	fair 17
Algiers	cloudy 15	Bermuda	cloudy 22	Cologne	sun 13	Glasgow	rain 12	Manila	fair 32	S. Frsco	sun 22
Amsterdam	cloudy 14	Bogota	fair 19	Dakar	fair 23	Hamburg	rain 13	Melbourne	fair 24	Seoul	cloudy 15
Athens	thund 16	Bombay	sun 32	Dallas	fair 22	Helsinki	snow 1	Mexico City	fair 24	Singapore	shower 33
Atlanta	thund 26	Brussels	cloudy 14	Delhi	sun 29	Hong Kong	cloudy 21	Miami	fair 29	Stockholm	rain 6
B. Aires	sun 25	Budapest	cloudy 9	Dubai	thund 24	Honolulu	thund 27	Milan	cloudy 15	Strasbourg	fair 16
B.ham	cloudy 13	C.hagen	rain 8	Dublin	cloudy 13	Istanbul	cloudy 11	Montreal	sleet 2	Sydney	fair 26
Bangkok	fair 39	Cairo	sun 23	Dubrovnik	fair 14	Jakarta	fair 32	Moscow	snow -2	Tangier	cloudy 19
Barcelona	sun 20	Cape Town	fair 25	Edinburgh	rain 12	Jersey	cloudy 15	Munich	cloudy 13	Tel Aviv	sun 16
						Karachi	cloudy 33	Nairobi	cloudy 28	Tokyo	drzzl 13
						Kuwait	fair 22	Naples	fair 17	Toronto	cloudy 4
						L. Angeles	sun 27	Nassau	fair 29	Vancouver	rain 10
						Las Palmas	cloudy 23	New York	shower 11	Venice	fog 15
						Lima	fair 25	Nice	sun 19	Vienna	fair 11
						Lisbon	sun 22	Nicosia	fair 17	Warsaw	fair 5
						London	shower 15	Oslo	cloudy 9	Washington	shower 17
						Lux.bourg	fair 13	Paris	fair 16	Wellington	fair 16
						Lyon	fair 16	Perth	rain 22	Winnipeg	fair 11
						Madeira	cloudy 18	Prague	cloudy 11	Zurich	sun 13

Poland

Elections this autumn may reopen historical divisions in Polish society, but proposed membership of Nato and the EU offers a more secure future. Anthony Robinson and Christopher Bobinski report

A year of historic choices and hurdles

Central Europe's most populous and strategically placed country faces a year of historic choices and significant hurdles. Abroad, Nato is preparing to include Poland in the first round of enlargement to the east. At home, voters are gearing up for general elections in early autumn.

For most Poles the arguments in favour of the closest possible integration into western economic and defence institutions are overwhelming, and at this stage more strategic than economic. It could hardly be otherwise for a nation which was erased from the map of Europe in the 18th century and regained its sovereignty after the first world war only to be violently re-partitioned 20 years later between Nazi Germany and the Soviet Union.

Now, and for the foreseeable future, Poland is secure within the borders established at Yalta and Potsdam. But people who live in this region know that Russia will not stay weak for ever. They want to integrate into Europe before Moscow is strong enough to prevent it – while doing what is possible to show that this is neither an unfriendly nor provocative act.

For the past four years, Poland has been governed by a coalition of former communists in the Democratic Left Alliance (SLD) and the peasants party (PSL). Many speak Russian, some were partly educated in the former Soviet Union and understand the attitudes of their former Soviet contemporaries.

Unfortunately this tends to confirm the suspicions of many anti-communist Poles that it is impossible to have been a communist and still be a patriotic Pole.

The autumn elections are likely to reopen historical divisions which run through society, even though a government led by former communists has continued the macro-economic and other reform policies begun by the anti-communist Solidarity alliance government in 1990 and has presided over four years of solid economic growth and rising real incomes. Despite an estimated 70 per cent rise in average incomes in dollar terms over the past three years – a result of 5-7 per cent annual growth, rising productivity and foreign investment and revaluation of the zloty – the outcome of the elections is more than usually uncertain.

This is mainly because in 1993 nearly 30 per cent of the total vote which went to small right-wing parties was wasted. Extra parliamentary seats were redistributed to left-wing parties because the right-wing groups failed to gain the 5 per cent of votes needed to enter parliament. This is unlikely to be repeated.

Opinion polls indicate that both the SLD and its main rival the Solidarity Electoral Alliance (AWS), a coalition of anti-communist parties, enjoy the support of roughly 25 per cent of the electorate. The feel-good factor, reinforced by a doubling of consumer credit (from a low base) and falling unemployment – and symbolised by a 39 per cent rise in new car sales last year – will probably help to confirm the SLD as the main party of the centre-left. But whether it retains its position as the party of government depends largely on what happens on the anti-communist "right" of the spectrum.

Two main "anti-communist" groups have emerged, both with their roots in the old anti-communist Solidarity coalition of workers, intellectuals and Roman Catholic church which fragmented in 1990. They are the AWS, led by Mr Marian Krzaklewski, and the Movement for the Reconstruction of Poland (ROP), led by Mr Jan Olszewski, the prime minister of a short-lived Solidarity government in 1992.

The ROP attracts varying hues of nationalists, including an anti-semitic fringe, while support for the AWS, which is the heir to the worker-orientated traditions of the pre-1989 Solidarity coalition, is concentrated among the unionised workers of the still state-owned enterprises and public sector employees.

The main "anti-communist" parties tend to varying degrees of xenophobia and are less than enthusiastic believers in privatisation and the kind of market-orientated reforms needed to make Poland eligible for European Union membership. But this can also be said of the PSL, the junior member of the present coalition government. It shares a communist past with the SLD but is closer in policies and attitude to the "right-wing" anti-communist parties seeking to push the SLD back into opposition.

The PSL's bedrock support among Poland's millions of small farmers makes it uneasy about freer trade, especially in agricultural products. It is concerned that EU membership would leave much of Poland, particularly those areas which were part of Germany before the war, vulnerable to purchase by foreigners.

Many of its supporters would feel more at home in a future governing coalition with the "right-wing" parties than with the SLD, particularly if switching allies would ensure continuing access to power and patronage.

Kwasniewski plays an important role behind the scenes, advising the current government led by Mr Wlodzimierz Cimoszewicz

Ironically, the economic policies of the former communists of the ruling SLD are closer to the pro-market approach of the Freedom Union (UW), another offshoot of Solidarity, than to that of their current coalition partners. The old "left-right" labels make little sense any more as the political parties seek to build their new identities.

The UW is led by Mr Leszek Balcerowicz, the "father" of Poland's shock therapy reforms of 1990. He hopes the party will emerge as the king-maker and will insist on the speeding up and deepening of market-based reforms as the price of its support.

Mr Balcerowicz admits that the SLD's economic policies and goals as expressed by Mr Marek Belka, the new finance minister, are virtually indistinguishable from those of the UW, and certainly closer than to any of the parties who define themselves as "right-wing" in terms of their historical anti-communism. But he criticises the governing coalition for having wasted time and for not pressing ahead fast enough with privatisation, and reform of the social security and pension system and for being intimidated by powerful trade unions in the coalmining and other state-owned industries.

The main obstacle to Mr Balcerowicz being able to form a new "centre-left" reform block with the SLD after the elections, however, is the fear that most UW voters would not stand for such an alliance with former communists, no matter how social democratic the SLD has tried to become since 1990.

Meanwhile, President Alexander Kwasniewski is one of the biggest supporters of a "historic compromise". Mr Kwasniewski, a rising star in the old regime, repositioned the former communists as pragmatic reformers and social democrats in opposition. He plays an important role behind the scenes, advising the current government led by Mr Wlodzimierz Cimoszewicz, the prime minister he chose.

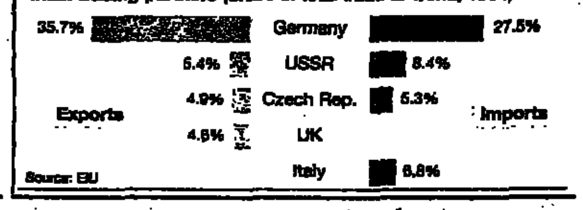
Mr Kwasniewski's victory over Mr Lech Walesa, the charismatic former leader of the anti-communist Solidarity movement, at the November 1995 presidential elections, shocked Solidarity and right-wing groups into their current bid to regain power. He wants to relegate the current polarisation of political life to the history books. The time may not yet be ripe, but he believes that time is on his side.

"I think the electorate is more prepared for reconciliation and co-operation than politicians who sometimes lack the courage to overcome historical divisions. The economy and Europe should be the key points of the election campaign. At each election Poland gets more and more European. Neither left nor right are strong enough to gain a majority, so the next government will also be a coalition and the main elements of reform will continue," he argues.

Economic summary

	1996 (est)	1997 (forecast)
Total GDP ($ bn)	134.5	148.4
Real GDP growth (annual % change)	5.5	5.3
GDP per head ($)	3,479	3,860
Inflation (annual % change in CPI)	21.2	17.8
Industrial output (annual % change)	8.5	9.0
Unemployment rate (%)	14.0	13.0
Money supply, M2 (annual % change)	34.7	30.8
Foreign exchange reserves ($bn)	18.2	18.0
Total external debt (as a % to GDP)	33.0	31.5
Current account balance ($bn)	-6.7	-9.4
Merchandise exports ($bn)	25.0	27.7
Merchandise imports ($bn)	32.7	37.3
Trade balance ($bn)	-7.7	-9.6

Main trading partners (Share of total trade to world, 1994)



Source: EIU

IN THIS SURVEY

THE ECONOMY • by Anthony Robinson

Foreign investment spurs growth

But rising consumer spending threatens efforts to cut inflation

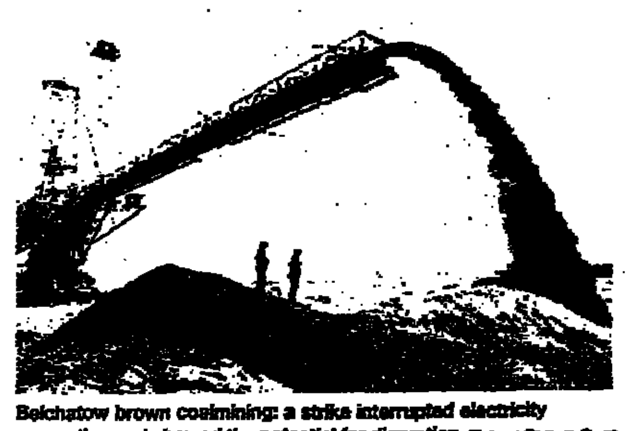
Soaring investment and rising consumption have replaced exports as the main motor of economic growth causing big changes in the Polish economy.

The shift was partly a consequence of slow growth in Germany and other European Union markets last year, but it was also brought about by a revaluation of the zloty in real terms. This reduced export competitiveness while sharply rising foreign and domestic investment and falling interest rates through much of 1996 stimulated both imports and consumption.

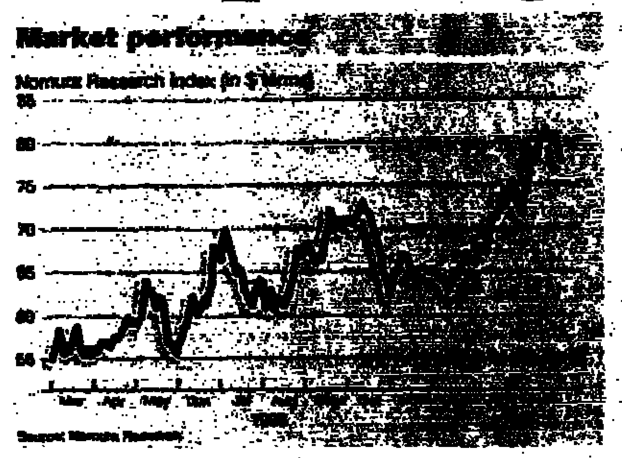
A $7.8bn surge in imports to $36.9bn, compared to a $1.45bn rise in exports, pushed the trade deficit up to a record $12.6bn, although unrecorded cross-border trade worth as much as $7bn reduced the deficit on a payments basis.

The combination of lower interest rates and a doubling of foreign capital inflows to about $4.5bn last year helped spur a rise in investment spending of more than 20 per cent. Higher investment is now seen as the main factor behind continuing 5 to 7 per cent annual growth until the end of the decade and beyond.

But last year also saw the first significant rise in consumer confidence and spending after three years of real appreciation of the zloty and several years of pay rises well below the growth in productivity. Higher real incomes last year helped generate strong demand for a wide range of consumer items from chocolate and confectionery through to durables such as appliances and cars.



Belchatow brown coalmining: a strike interrupted electricity generation and showed the potential for disruption Picture: Camera Press



Source: Nomura Research

This was good news for both the multinational consumer corporations, which were the earliest foreign investors in Poland, and smaller local producers struggling to build niche markets. It also confirmed the long-term optimism of the three big vehicle manufacturers – Fiat, GM and Daewoo – and the foreign supermarket chains attracted by the potential of a 39m-strong market.

But the retail revolution now under way is a two-edged weapon. The big new stores – with others such as UK-based Marks and Spencer in the wings – pose a competitive challenge to the small family-owned stores which mushroomed after the "shock therapy" reforms and small-scale privatisations of 1990. An influx of international oil companies into the petrol station business is similarly pushing small entrepreneurs out of the sector.

With elections looming in the autumn the main questions now are whether uncertainty will make investment falter or whether consumption will be allowed to get out of control and rekindle inflationary pressures. The latter risk will rise if, as expected, export demand also recovers in both western and former Comecon markets this year.

The temptation in an election year will be to concede political demands for higher spending or demands for higher wages. This would promote the "feel-good" factor in the electorate but hinder the struggle to reduce inflation to single digits.

At this stage the signs are that such temptations will be resisted. Mr Marek Belka, who replaced Mr Grzegorz Kolodko, the author of two long-term growth plans, as finance minister in February, has pledged to speed up privatisation and structural reforms.

He insists the impending elections will not deflect him from an inherited 1997 budget designed to combine continuing growth with steadily falling inflation. Next year's budget, now in an early stage of preparation, will aim to bring inflation below 10 per cent.

"The provisions of the 1997 budget (which targets 5.5 per cent growth, a 2.8 per cent budget deficit and a cut in inflation from 19 to 13 per cent) will be meticulously carried out. There will be no diversion for any reason, political or otherwise, from what has been written into the budget," Mr Belka said.

The words are not quite as tough as they seem because last year's budget deficit was lower than expected. It came in at a little over 2 per cent of GDP due to unexpectedly high tax receipts, thanks to revenue from higher imports and higher personal consumption spending than projected.

The windfall will doubtless provide a cushion to finance some electorally attractive spending this year. But the biggest inflationary danger might come from a different direction – renewed labour militancy.

A strike by brown coal miners supplying the state-owned Belchatow power station complex in February, which briefly interrupted a quarter of the country's electricity generating capacity, showed the potential for disruption from trade unions concentrated in the public sector.

The fast-growing private sector, whose two million small- to medium-sized enterprises keep the economy flexible and underpin its dynamic growth, have thus far proved relatively impervious to unionisation.

However, falling unemployment and a greater sense of economic security are expected to increase pressure for higher wages.

Meanwhile, the appointment of Mr Belka, a 45-year-old economist who was previously economic adviser to president Alexander Kwasniewski, was a clear signal that the coalition government, or at least its leading force – the Democratic Left Alliance (SLD) – has taken on board the need for faster structural reform.

"The greater the speed of privatisation and reform, and the faster the elimination of monopolies, the easier it will be to carry out a counter-inflationary policy while strengthening the macro-economic basis for growth," Mr Belka said.

The government's reform priorities for the next few months are to speed up privatisation, which has been a political football for years, and to push ahead with a long-delayed pension reform.

Unlike Hungary, which two years ago decided on the quickest cash-sale privatisation of some of the biggest enterprises, banks and utilities to fill the treasury and head off a looming internal and foreign debt trap, Poland has yet to privatise any of the the "flagship" state-owned companies.

This is about to change with the partial sale to domestic and foreign investors of substantial stakes in Bank Handlowy, the country's biggest bank, the telecoms monopoly, the profitable copper mines and refineries, and a long list of smaller or less strategic companies.

Privatisation and pension reform are now linked. A new law due to be presented to parliament in March aims to strengthen the capital base of the proposed pension funds with privatisation receipts.

The law will authorise the issue of convertible bonds which will be sold to fill the budgetary gap expected to emerge as a consequence of pension reform.

The bonds will be exchangeable for stock in a list of state-owned companies earmarked for privatisation.

Some of the shares of the privatised companies will end up in the portfolios of the new pension funds, laying the foundations for the gradual switch from an unfunded pay-as-you-go to a funded pensions system.

The hope is that the development of pension funds will create the institutionalised channel through which higher domestic savings will be funneled to help finance future growth and the big infrastructure developments now in the pipeline.

POLITICS AND PRIVATISATION • by Anthony Robinson

The family silver gets a polishing

Privatisation is high on the agenda in the run-up to the autumn elections

Seven years after starting the economic reform process in central Europe, Poland still boasts the only post-Communist economy whose output exceeds levels reported under the old regime. But this only tells half the story. The improved quality of output and services, the reduction of pollution and the upward revaluation of the zloty in recent years means the real increase in wealth and well-being for millions of Poles is far higher than indicated by output alone.

If growth continues at 5-7 per cent until the end of the decade, Poland's overall gross domestic product will end the century at $200bn (£123.4bn), or roughly half the GDP predicted for Russia which has four times the population and infinitely greater resources.

But even that is not good enough for the increasing number of Poles who compare their achievements with the still yawning gap between Poland's economic performance and per capita income and the standards needed to fulfil entry requirements for European Union membership. However, to realise that ambition, whichever party controls the government after the autumn elections will have to shift into higher gear the economic reform programme which started with the "shock therapy" reforms of January 1990.

Mr Andrzej Olechowski, a former finance minister who now represents the UK-based Central European Trust in Warsaw, says: "The biggest problem lies in the slow pace of privatisation to date. This means that foreign investors, who are attracted by the 39m strong market and want to take part in Poland's rapid economic growth, have not been able find the projects to fully invest in."

In the months before the elections, privatisation is about to speed up. After much soul-searching among old-style statists in the ruling coalition, the argument for faster privatisation has been won, at least inside the Democratic Left Alliance (SLD). The appointment of Mr Marek Belka as finance minister in early February brought a supporter of faster privatisation to the fore.

The emergence of former Communists – who lead the SLD – as the most consistent supporters of market-orientated reforms is confusing to those who think in terms of the old distinctions which associated the left with state-run industry and the right with free markets.

In practice, many former Communists have emerged as the most pragmatic supporters of free markets not least because many of the SLD's most powerful, and politically most controversial, supporters are former nomenklatura managers who now run profitable and fast-growing former state-owned foreign trade monopolies. Companies such as Elektrim and Rolimpex, for example, have recreated themselves as private industrial or farming conglomerates and become star performers on the Warsaw stock exchange.

A real increase in wealth: Krakow fashion shop Picture: Fergus Wilde

Over the next few months, a series of flagship state companies such as Bank Handlowy, Polish Telecoms and the Polska Miedz copper and precious metals miner and refiner are scheduled for partial privatisation, alongside a slew of smaller companies. They will be followed by the power and energy sector and other utilities.

This speed is largely a consequence of previous delays which have pushed a programme aimed largely at foreign investors into an election year, with all the attendant political risks.

Ironically, the most vocal opposition to "selling the family silver to foreigners" comes from the "right" of the political spectrum, particularly the more xenophobic elements of the Movement for the Reconstruction of Poland (ROP). The ROP is lead by Mr Jan Olszewski, a former Solidarity movement lawyer who led a short-lived government in 1992 which clashed with President Lech Walesa over plans to expose and defenestrate former communists.

Having failed to breach the 5 per cent parliamentary entry barrier at the last elections, like most other right-wing parties, ROP is now making a pitch for support from small shopkeepers and their families who feel threatened by foreign supermarket chains. The strategy bears a marked similarity to that of the French right led by M. Jean-Marie Le Pen.

The public sector trade unions who form the electoral bedrock of the Solidarity Electoral Alliance (AWS) are also ambivalent about privatisation. The AWS is headed by Mr Marian Krzaklewski, a younger generation Solidarity union leader. His oratorical style has earned him the nickname of "Mussolini", but his private utterances have given him a reputation for pragmatism and a willingness to do whatever is necessary to become prime minister.

Under the Polish model, privatisation reduces labour's control over state enterprises by abolishing the powerful workers' councils which keep state companies and mines tied to union requirements over pay and employment. The need to buy off union opposition is the main reason why the privatisation of highly unionised state companies provides for 15 per cent of the stock of the newly privatised company to be distributed free to the workforce.

The most effective opposition to privatisation over the last few years has probably come from the peasant party (PSL) which is the junior partner of the SLD-PSL coalition government. The PSL, the least ideological and most opportunist of parties, wants increased tariff and other protection for farmers and is suspicious of Brussels. It will insist on driving as hard a bargain as possible during negotiations for Polish membership of the EU. The party's leadership is already preparing to shift political allegiance, if that is the price of staying in power and ensuring continuing access to patronage.

Politically, the most problematic electoral result for the future of privatisation would be an alliance between the ROP and the ASW, both former Solidarity-based parties, and the peasants party (PSL), although once in power the need for revenue from privatisation to balance the budget and fund pensions could well overcome reservations expressed during the election campaign.

Much may depend on the electoral performance of the avowedly pro-market and pro-privatisation Freedom Union (UW) lead by Mr Leszek Balcerowicz. The economist turned politician could face the toughest choice of his political career if the elections leave the UW as the swing factor in Polish politics. This could leave the avowedly anti-Communist party with the choice of rebuffing SLD overtures, and risk a slowdown of reform and privatisation, or of swallowing its historic enmity towards the former Communists and entering into a Hungarian-style coalition of convenience.

The record shows that nine months after the reformed Communists of the Hungarian socialist party forged their unlikely coalition with the anti-Communist Free Democrats in 1994 the Hungarian government began a policy of rapid privatisation. This poured $5.4bn into the Hungarian treasury in two years, put ownership of the former state telecom monopoly and the power utilities largely in foreign hands and transformed the international competitivity of Hungarian exporters.

FOREIGN AFFAIRS • by Christopher Bobinski

Nato membership will ensure future security

Poland's armed forces are primarily seeking to improve communications with Nato allies on the ground and in the air

1989: Soviet troops and tanks began pulling out of Poland *Reuter*

Olszewski: in 1992 he started efforts to have Poland join Nato

The way things were: 1982 manoeuvres between Polish, Soviet and East German forces *Picture: Name here*

Poland hopes to be among the first aspirant members from central Europe invited to join Nato at a summit of the 16-nation western alliance in Madrid in July.

Its bid to join the Euro-Atlantic defence community finds the country more secure in its borders than for well over 200 years, with no outstanding conflicts to cloud relations with its neighbours. But Poles still remember the damage wrought by invading armies marching across their flat northern European plain.

By an overwhelming majority, they see full Nato membership as the best way to ensure their future security.

Nato membership is seen as an unparalleled opportunity to close a period during which Poland was partitioned and wiped from the face of the map, culminating in two world wars.

Both were fought across its territory, and the capital, Warsaw, was razed in 1944.

As recently as 1980, Poles faced the very real prospect of an invasion by the now defunct Warsaw Pact's armies across each of the country's land frontiers.

Mr Jan Olszewski, who as prime minister in 1992 started efforts to secure Nato membership for Poland, told a recent public meeting that "Poland has always suffered at the hands of the Germans and the Russians. Our membership of a US-led Nato means we get guarantees that Germany, as part of the alliance, will remain a friendly state, while Russia, thanks to the alliance, can be kept at arms' length".

The fact that Poland's present strategic situation is so good means that the financial costs of Nato entry do not have to be too high.

For Warsaw, the potential threat is assumed to be Russia. But no one doubts that Russia will need 20 years to restore its strength before it could even contemplate re-establishing its dominant position in central Europe.

"That gives us a breathing space in which to prepare for a possible threat," says a strategist.

This explains why Poles are ready to accept that once their country joins the alliance it will initially prepare for what Nato analysts call the "self-defence option". This assumes that, in the unlikely event of a Russian threat, Poland's eight divisions would move to defend the country, with the backing of air and ground Nato units based in western Europe.

Looking at the map, Mr Andrzej Karkoszka, a deputy defence minister, says: "As long as the Ukraine and the Baltic states are independent, the Russians would have to come in from Belarus and from Kaliningard – and that is a relatively narrow stretch of common frontier".

With no real threat in sight for the moment, however, Poland's armed forces are primarily seeking to improve communications with Nato allies on the ground and in the air.

A programme to make maps compatible, to enable western allies to find their way, is almost complete.

The recent signing of a 140m zloty contract for the joint production of portable radio sets by Radmor, a Polish company, and Thomson of France will also allow troops on the ground to talk to each other.

Another 18 months should see the installation of a Nato-linked air traffic control system over the whole of central Europe which would enable the alliance to monitor the region's skies.

Language courses are under way to teach English to officers.

The outlays needed to modernise the army's equipment with new fighters, missiles, and armoured personnel carriers can be synchronised with the state budget's ability to pick up the bills. Mr Janusz Onyszkiewicz, a former defence minister, argues that the cost of modernising the armed forces should not be counted as a Nato membership outlay because it would have to be spent anyway.

The government will also insist in negotiations with foreign suppliers that local companies be granted contracts in offset arrangements.

A pro-Nato "think-tank" headed by Mr Onyszkiewicz recently argued that the basic costs to Poland of Nato membership, including the replacement of air communications systems, would run to a mere $1.3bn over 15 years.

Last year, the defence budget ran to $3.1bn, which was only half the mid-1980s level.

The defence ministry, however, estimates that modernisation will cost more than $8bn over the next 15 years.

Some infrastructure costs will be covered by the civilian budget as well as private finance. This would include the construction of toll motorways with strategic significance. The highways, as well as pipelines and storage facilities, would enable reinforcements and supplies from the west to be transported into Poland.

A big training exercise by the British army's 7th armoured brigade in north-western Poland last autumn showed that access by road is already relatively easy.

The UK's 1st armoured division which forms part of Nato's quick reaction forces is due in Poland for exercises this month.

Meanwhile, Poland's largely conscript army, while not questioning the advantages of Nato membership, is being forced to change its ways.

The armed forces' strength has been cut from around 430,000 men to 230,000 over the last seven years. Military budgets have been cut and morale among officers facing the sack is understandably low.

General Tadeusz Wilecki, the military chief of staff who won the support of President Lech Walesa in his efforts to limit the cuts, was sacked earlier this month.

General Wilecki's position had already been weakened markedly when Mr Walesa lost the presidential election in the autumn of 1995.

The civilians recently won a decisive victory to create a separate land forces command. This is commanded by General Zbigniew Zalewski, but he reports directly to Mr Stanislaw Dobrzanski, the minister of defence.

This move restricted General Wilecki's domain to Poland's small navy and the air force.

Turf wars continue to rage between the military general staff and the civilians in the defence ministry. Emotions are fuelled by the cuts the reorganisation is bringing.

General Wilecki also had a point when he said that Poland lacked civilians who understood military issues.

Mr Karkoszka, who has taken the brunt of the conflicts remains calm, however. "The command of the chemical forces come in, for example, and say it's absolutely essential to the country's security they stay as a separate entity rather than be integrated into the land command. That's natural. After all, jobs are at stake," he says.

PROFILE Leszek Balcerowicz

Socialism of left and right

Seven years ago, on the first day of this decade, a wiry, nervous-looking economist wearing an ill-fitting suit and a harrassed expression launched Poland on a hitherto untested "shock therapy" economic stabilisation and reform programme.

It worked. But the political benefit accrued neither to Leszek Balcerowicz, the author and main executor of the plan, nor the anti-communist Solidarity movement which made it possible. The harvest was reaped instead by Poland's former communists.

They changed their name to social democrat, adopted the "Balcerowicz programme" as their own and won the September 1993 general elections by promising to reduce the social costs of the reforms. They then proceeded to maintain the budgetary restraint and the macro-economic stability which has underpinned economic growth and pushed slowly ahead with privatisation and other reforms.

The resulting higher living standards for millions of Poles gives the ruling parties, the Democratic left Alliance (SLD) and the peasants party (PSL), their best hope for re-election in this autumn's general elections.

The irony is not lost on Mr Balzerowicz who for the past two years has largely forsaken his first love, economics, and embarked, somewhat reluctantly on a new career as a politician. Much of his rather shaky first year was spent managing the unsuccessful presidential election campaign of Jacek Kuron, the former dissident and leading Solidarity activist, and building up the organisational structure of Unia Wolnoszci (UW or Freedom Union).

The UW is the fruit of a post-1993 election merger between the modernist wing of the defunct Solidarity alliance and the pro-business Congress of Liberal Democrats (KLD) which failed to win the five per cent vote needed to cross the threshold of parliament. The UW is trying to position itself as a modern conservative party representing the aspirations of the rising middle class.

Balcerowicz: embarked on a new career as a politician

Mr Balcerowicz, now exuding energy and confidence, is gearing up to lead his party into a general election campaign which will seek to establish the UW as the party for those who want to complete the reform process began in 1990 and turn Poland into a modern, fully European democracy. "What is at stake is very important. The range of problems to be tackled is still much greater than in the west," the former finance minister says. "In normal times I would never have entered politics. But Tadeusz Mazowiecki (the first Solidarity prime minister who was unfamiliar with economics) said he was looking for Ludwig Erhard (father of the post-war German recovery). I really just wanted to be an adviser but I got the job."

Having set the Polish economic recovery in train Mr Balcerowicz now worries that without the completion of reform in key areas economic growth will slow down and reform projects will remain on paper. "We need faster progress in privatisation, social security reform, deregulation, the devolution of power to local authorities and educational reform," he says.

Poland no longer faces the danger of a catastrophe blighting the economy. But Mr Balcerowicz believes there is still a risk that without faster reform, and the political and economic institutions to match, annual growth will slow from the seven per cent of GDP which is within grasp to around four per cent.

"That would be simply not enough for Poland to catch up and to create the productive jobs needed to create wealth, build up a middle class and find jobs for the millions of young Poles coming onto the labour market," he worries.

He points out that Poland, with its high post-war birth rate, is an exception among the former communist countries. "Whoever impedes economic growth by increasing unemployment and emigration will be responsible for the failure of an entrire generation," he wrote in a recent essay entitled "social security through economic growth.

"Only through politics is it possible to complete reforms and get the growth we need" he says, seated in his modern offices on Warsaw's Jerusalem Street beneath a map of Poland dotted with clusters of blue-headed pins. They mark the dozens of towns and villages he has visited over the past two years, building up the grass-roots organisation essential for a national party.

Thus far the tangible results are meagre. Opinion polls and the estimates of political rivals give the UW between 4-10 per cent of potential votes. Although this may be enough to become a possible junior coalition partner, it is not enough to play a dominant role.

Much will depend on the forthcoming electoral campaign. Mr Balcerowicz sees a rich potential vein of support in the large number of voters who profess no party allegiance and who refuse to define themselves in terms of left or right.

"The whole left-right mindset is misleading and inappropriate in countries like Poland," he says. "The Solidarity electoral alliance (AWS) for example is supported largely by trade unions.

"They are strong defenders of workers rights in loss making or subsidised state-owned companies and are weak in the private sector. Yet they see themselves as right wing because of Solidarity's anti-communist past. This makes no sense."

He compares the Polish with the British situation. "In the UK, the trade unions support the Labour Party. But Labour is traditionally a left wing party. There is no contradiction."

"In practice all the main political parties in Poland except UW have a left-wing mind-set and policies. Even the so-called right wing parties such as the Movement for the Rebuilding of Poland (ROP) are only right wing in the sense of being ultra-nationalistic, xenophobic and anti-semitic but not in terms of their programme which is leftist in thinking," he says.

"In Poland we have two kinds of socialism, of the left and of the right. The difference between them can be seen only in their respective attitudes to the Catholic Church and to Russia," he says provocatively. "When it comes to economic issues the UW is the most liberal. Only the UW programme offers voters a true alternative." Whether they bite the bait remains to be seen.

Anthony Robinson

PRIVATISATION • by Christopher Bobinski

EU entry provides spur

Brussels sees a commitment to disposal as a test of suitability for membership

Facing the challenges posed by future membership of the European Union and by commitments made to the OECD to liberalise capital flows fully by 2000 is putting new urgency behind Poland's privatisation drive.

"Privatisation used to be a transformation issue," says one financial observer, referring to the early days of Poland's market reforms when selling state assets was regarded with missionary zeal by the Solidarity-based government as a way of breaking with the Soviet past. "Now privatisation is an EU accession issue."

The ideological approach disappeared in 1993, when the present coalition government came to power. The administration, drawn from the former communist Left Democratic Alliance (SLD) and the Peasant Party (PSL), took a more cautious approach. Privatisation slowed as Mr Wieslaw Kaczmarek, the minister, pushed on with sales but took care to maximise revenues.

At the same time he faced a constant barrage of criticism from the government's coalition partner, the PSL, which has traditionally been wary of foreign influence and whose instincts tell it that key sectors of the economy such as energy should be kept under state control.

Nevertheless, sales of sectors such as tobacco were accomplished, and individual companies continued to be privatised, producing a revenue flow of more than $600m a year, and matching the results achieved by former administrations. The present administration also put in place the mass privatisation programme under which more than 500 state-sector companies are owned and run by soon to be listed private funds.

Warsaw Stock Exchange: sales of minority stakes in Plock and Gdansk could be accomplished early in 1998 Picture: Reuter

Unlike Hungary, where the government has sold large stakes in the state telecommunications company and other utilities, key sectors of the Polish economy, including refineries, coal and telecommunications, have been left untouched, and represent a big potential source of government revenue.

Brussels is now looking for progress on the privatisation of these sectors. Sir Leon Brittan, the EU's trade commissioner, said on a recent visit to Warsaw that plans for disposals of state property were particularly welcome as an indication of the country's capacity for membership.

Mr Konrad Jaskola, the managing director of the state-owned Plock refinery, is even more convinced of the need not only to privatise but also to bring in strategic investors. "I must have a big western oil company alongside me to defend this market when tariff barriers come down in 2000," he stresses.

Mr Jaskola has already spent $1bn on modernising the plant, which has the annual capacity to refine 10.3m tonnes of oil. Another $900m still has to be spent by the end of 1999 to bring Plock's costs down to those of competitors in western Europe. Only then will the industry no longer need to be protected by tariffs, he says. The smaller Gdansk refinery on the Baltic coast is also hurrying to modernise in a $450m programme to meet the end of century deadline.

Information memoranda on the sale of shares in the refineries, which are currently controlled by Polska Nafta, an umbrella organisation, are going out, and sales of minority stakes in Plock and Gdansk could be accomplished early in 1998, Mr Jaskola says.

Next year should also see the start of the privatisation of Telekomunikacja Polska (TP), the state telecommunications company which reported a net profit of 840m zlotys in 1995. Mr Marek Belka, the new deputy premier responsible for the economy and a committed supporter of privatisation, admits that he will have to push TP's less than enthusiastic management into preparing the sale. Otherwise it could be delayed.

Battles also loom over the privatisation of the energy sector, which urgently needs funds to modernise. Here the PSL and the Solidarity trade union have sought to block clauses in a new energy law which would open the way to competition between energy producers without which privatisation is impossible.

In the meantime, the government is proceeding with several pilot schemes, such as the sale of energy distributors in Gliwice and Poznan and municipal heat and power plants in Krakow and Bedzin in Silesia.

This year's budget has pencilled in a figure of 2.5bn zlotys ($830m) as the expected revenue from sales of state-sector companies. This compares with the $600m raised from privatisation last year. Mr Miroslaw Pietrewicz, a PSL member who is a close supporter of the party's leader, Mr Waldemar Pawlak, now heads the state treasury which is responsible for the programme.

Mr Pietrewicz is a shy, mild-mannered academic who has never shown much enthusiasm for privatisation. Nevertheless, he recently stated that pharmaceutical plants and the country's distilleries should be privatised soon. He will also be overseeing the sale of shares in Polska Miedz, the copper conglomerate, which is to be floated both at home and through GDRs on foreign stock exchanges.

The sell-off of state-owned banks also continues under the aegis of the finance ministry. The budget revenue target of 500m zlotys should be met easily from the sales of residual state-owned shares in listed banks such as the Bank Gdanski (BG) and the Wielkopolski Bank Kredytowy (WBK). The first half of the year should also see the sale of the Powszechny Bank Kredytowy (PBK) where HSBC, the government's adviser, has a healthy raft of potential clients who are showing interest.

This year will also bring stock in the Bank Handlowy, Poland's former foreign trade bank, to the market. Mr Belka wants the Bank Handlowy to head the list of state-sector companies, the sale of which will help finance the $1bn or so budgetary gap which is expected to appear each year as a result of planned pension reforms.

The reforms envisage a gradual switch from an unfunded pay-as-you-go system to a funded system which will initially bring a fall in budgetary revenues but eventually create a growing flow of savings for investment. Under the reform proposals, the government will issue convertible bonds which will be exchangeable for shares in Bank Handlowy and other flagship state companies shortly to be sold. The bonds are to be made available to both foreign and local investors as well as to privately managed funds themselves.

In this way, pension reform, which could start as early as next year, will accelerate privatisation as the government will be forced to sell assets to finance the programme. Mr Belka notes this will make it easier to defend sales of state property against critics of privatisation. "We will, for the first time, be able to say that the revenues from privatisation are going to finance a worthy social aim from which everyone benefits," he says.

THE CENTRAL BANK • by Christopher Bobinski

Sidestepping turbulence

The past year has seen a new spirit of co-operation with the presidential office

Poland's central bank, the National Bank of Poland (NBP), hopes to steer clear of the political turbulence expected to accompany the build up to this autumn's general elections. This is largely because Ms Hanna Gronkiewicz Waltz, president of the NBP since 1992, enjoys good relations with Mr Marek Belka, the new finance minister, President Aleksander Kwasniewski and the right wing, Solidarity-linked opposition.

The calm contrasts with the recent past when the NBP president often feuded with the abrasive Mr Grzegorz Kolodko, the former finance minister, while memories of her ill-fated foray into politics in the 1995 presidential elections alienated both Mr Lech Walesa, her one-time patron, and Mr Kwasniewski, the victor.

The last year has seen a new spirit of co-operation between the NBP and the presidential office. This followed agreement that the new constitution should remove direct responsibility for formulating monetary policy from the NBP and transfer it to a proposed Council of Monetary Policy (CMP). The central bank would become the executive arm of the new Council which would be answerable to parliament.

"This solution on French lines is a good one," Ms Waltz says. Placing responsibility for monetary policy with an independent council, appointed by parliament and the president, is the price the NBP had to pay to free itself from reporting directly on monetary issues to parliament as a whole, she adds.

Earlier government plans to take away the NBP's supervisory functions and to limit the central bank's independence by creating a supervisory council to oversee the NBP appear to have been quietly shelved. Both proposals were fiercely resisted by Ms Waltz.

Ms Waltz agrees with Mr Belka on the need to press ahead with tightening up Poland's banking laws. They have known each other since Mr Belka, the former economic and financial adviser to President Kwasniewski, was a member of the NBP's academic advisory group. They also agree on the instruments needed to combat inflation and accept that the NBP may have to control inflows of foreign capital more tightly if the central bank raises interest rates to slow down the growth of consumer lending by banks, which doubled during the past year.

National Bank of Poland: the past year has seen a new spirit of co-operation Picture: Gregory Wrona

The proposed banking law draft, which has languished in parliament for months, will give the NBP greater powers over bank managements. It will also raise the lending limit to any one client from the present 15 per cent of capital to 25 per cent, in line with EU directives.

The new atmosphere of co-operation partly reflects growing confidence in the health of the commercial banking system. Ms Waltz, whose term ends in 1998, says that locally owned banks are beginning to compete better with foreign banks which now control just under 30 per cent of the banking system's total $1.5bn capital.

New foreign banks applying for licences are expected to bolster ailing local banks with capital injections or long term loans as the price of entry.

Last year overall bank income rose by 16.2 per cent while costs grew by only 11.3 per cent compared to 1995. At the same time net profits reported by the banking system grew to 4.4bn zlotys, 56.1 per cent up on 1995. The share of bad loans meanwhile dropped from 25.1 per cent to 15.5 per cent over the same period while 74 of the country's 81 banks had an end-year capital adequacy ratio higher than the 8 per cent level recommended by the Bank for International Settlements (BIS).

THE VEHICLE INDUSTRY • by Stefan Wagstyl

Manufacturers have moved into the fast lane

A world-class motor industry is developing faster than seemed possible

In Tychy, in Silesia, in south-western Poland, Fiat Cinquecento cars slide along a computer-controlled production line with monotonous precision. If a fault occurs, details are flashed on electronic signboards warning workers to take extra care.

Mr Umberto Agnelli, chief executive of Ifi, the family company which controls the Italian carmaker, says the quality at Tychy is as high as in Fiat plants in western Europe.

"It has to be, the cars are all sold as Fiats."

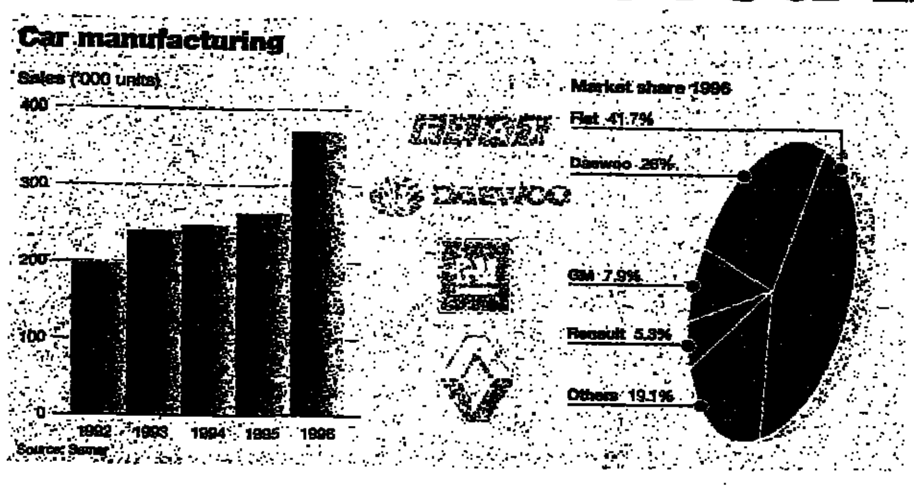
Faster than most car companies thought possible, even three years ago, Poland is developing a world-class motor industry.

Inspired by a rapidly-growing domestic market and the prospect of building low-cost export bases, international motor companies are planning to invest about $5bn by 2002.

Car sales in Poland jumped 41 per cent last year to 373,542 units, the biggest increase in Europe, according to Samar, a market research company. The statistics include 108,000 official imports, but exclude second-hand cars imported in whole or in pieces from western Europe – estimated at up to 100,000 a year.

Mr Tadeusz Soroka, director of the government's Technology Transfer Agency, forecasts 500,000 cars a year could be sold in Poland by the early 2000s. Exports, which last year totalled about 200,000, including 170,000 Fiat Cinquecentos, could rise to 300,000-500,000 a year, says Mr Soroka.

These ambitious hopes may not be realised, given the swings to which emerging economies are prone and the prospect of increasing competition from imports as duties on EU-made cars fall from 30 per cent in 1996 to zero in 2002, in line with agreements with Brussels.



But the industry's international impact has already been big enough to generate arguments with Brussels, most recently over the expansion plans of Daewoo, the South Korean group which in 1995 acquired FSO, Poland's second largest car plant.

Three companies – Fiat, General Motors of the US and Daewoo - have committed themselves to building world-scale manufacturing businesses in Poland, complete with networks of component suppliers.

Fiat, which has deep-rooted commercial ties with Poland, was first off the mark in 1992, buying FSM, its long-standing Polish partner.

Fiat has ploughed $1.2bn into FSM, mainly at Tychy, and plans to invest a further $600m by 2002, including the launch this year of two new models, the Palio and the Siena. General Motors is investing DM500m ($300m) in a greenfield site in Gliwice, about 50km from Tychy, for a plant which will start making 70,000 small family cars a year from September 1998.

GM is also considering investing a further DM350m-DM400m in producing a second car for export to western Europe.

Delphi, GM's components subsidiary, is developing parts factories and Isuzu, GM's Japanese affiliate, is planning a DM380m diesel-engine plant.

Daewoo has promised to invest $1.1bn in FSO and its 12 affiliates, including a second assembly plant in Lublin in eastern Poland. Daewoo has undertaken the daunting challenge of modernising the sprawling loss-making combine without mass redundancies among the 25,000 workers.

It intends to raise output from 80,000 locally-made cars last year to 220,000 by 2001 by introducing new models and after that, if market conditions permit, to 450,000-500,000 cars a year.

Car makers with more modest ambitions for Poland include Germany's Volkswagen which is assembling cars from Germany and from Skoda, its Czech affiliate, in a plant near Poznan, in western Poland. Ford Motor of the US has plans to assemble up to 100,000 cars at Plonsk near Warsaw.

Toyota Motor of Japan has looked at Poland as a potential site for a possible second European factory, after its UK plant.

Mr Soroka says Poland can support a fully-developed motor industry producing 1m units a year. However some industry executives are worried about the scale of the proposed investments. Mr Sun Joo-Lee, a director of Daewoo-FSO, Daewoo's Polish subsidiary, says: "In Poland we already have so many car makers."

French makers are conspicuous by their absence. Peugeot has abandoned a small assembly line it set up in Lublin and Renault has not disclosed any plans for Polish production. However both intend to expand exports to Poland as import duties fall.

Meanwhile, Brussels, prompted by western European car makers, has challenged the support Poland has given Daewoo. The most contentious element is a rule Poland introduced in 1992 at the request of EU makers to allow the duty-free import of components into Poland to encourage local manufacture.

Fiat, VW, and others took advantage of the rules to import cars in as few as ten pieces. But there were few complaints about unfair competition until Daewoo last year began exploiting the same rule, shipping cars whole from Korea, removing a handful of parts in Slovenia and re-assembling in Warsaw.

EU makers protested, complaining Daewoo was circumventing a 35 per cent tariff on non-EU imports. Under pressure from Brussels, the Polish government has made import rules slightly more complex by insisting importers bring parts in separate shipments.

The issue is significant for the whole EU. By establishing a Polish plant, Daewoo will have tariff-free access to EU markets, even if Poland does not join the EU. But Korea's own tariffs remain prohibitively high. So western European companies argue it is unfair to allow Korean companies into the EU through the back door unless the Korean market is itself opened.

PROFILE Pol-Mot Praszka

Car parts company becomes a capitalist success

A motor parts company, established to help bring socialism to the Polish countryside, is rapidly becoming one of the country's most successful rural capitalist enterprises.

In its Communist heyday, Pol-Mot Praszka employed 4,000 people in the small town of Praszka in central Poland, supplying about 90 per cent of its output to the Soviet truck industry.

When the Soviet market collapsed in 1991, the state-owned company was driven to the verge of bankruptcy. But the managers persuaded the banks to finance a comprehensive restructuring in which the workforce was cut to 1,300.

Pol-Mot managed to replace some of the lost Soviet business with orders from domestic motor companies, notably the biggest producer, Fiat Auto Poland, the Fiat subsidiary.

It also won customers in western markets, including Daimler-Benz and BMW, the German motor groups. Exports to the west now account for over 15 per cent of sales.

To widen its customer base, Pol-Mot also diversified. Brakes, which once accounted for 95 per cent of output, have fallen to about half as the company has launched new lines in engine components, suspension springs and aluminium castings.

Progress was so fast that in 1995 the company was privatised, with a controlling stake sold to a group of private investors. New workers have been recruited taking the total to 1,600. Sales, which rose last year to about US$30m (£18m), are still far from their 1990 peak of $140m, but are enough to keep the company in modest (undisclosed) profits.

The target is to double turnover by 2005.

Fiat helped the company in its transformation, providing technical and managerial advice. But the bulk of the work was done by Pol-Mot managers and staff.

Mrs Lucyna Falis, the managing director, says the company has put a big emphasis on training.

"Pol-Mot had to change from thinking only about production volumes, to thinking about product quality and markets."

Mrs Falis, a former financial manager who has worked at Praszka since 1977, says the restructuring was organised mainly by existing Pol-Mot executives.

She bristles at the suggestion that working for so long in a state-owned company had made it difficult for her to prepare the plant for a free market economy.

"People don't forget how to think whatever system they're in," she says. "I always knew what had to be done. Even if I couldn't speak out, I kept things in my head."

Pol-Mot workers on the suspension springs production line Picture: Stefan Wagstyl

Mrs Falis says the company must keep increasing sales, improving training and investing in new equipment. The aim is to raise productivity further following a threefold increase in value added per employee since 1992. "The cost of labour rises all the time. So we must get more out of people by using better methods and better machines."

Mrs Falis says Polish companies must realise that they have to fight for business. "Marketing is the most important function. It was quite different in the old days. We just sat here and waited for orders from the Soviet Union."

She argues that Poland has a limited amount of time to build a modern economy because it has to compete with other countries in central and eastern Europe engaged in the same task. "We mustn't waste time."

Stefan Wagstyl

CONFECTIONERY • by Robert Anderson

Some tasty profit margins

Foreign groups are building on a long chocolate-making tradition

Confectionery is among the most profitable and competitive sectors of the Polish economy because chocolate and sweets are among the first things people buy when their incomes rise.

Poles have long had the highest per capita chocolate consumption in central and eastern Europe and Investment bank MC Concordia estimates that consumption has risen five-fold over the past seven years to about 2kg of chocolate and 3kg of sweets a year. But this is still well below western European averages of more than 5kg in chocolate alone.

In the early 1990s, sales rose despite the stringencies of the Balcerowicz austerity plan which left consumers barely able to afford chocolate's comforting properties.

Confectionery sales soared by 10 per cent a year in the early 1990s but growth dipped to about 8 per cent last year and will slow to about 5 per cent a year until 2001, according to MC Concordia. Even so the market is currently worth about $800m and offers profit margins of about 3 per cent compared with the food industry average of 1 per cent.

At the premium end of the market, big foreign companies are fighting the first round in a bruising contest for the growing disposable income of the citizens of central and eastern Europe. At the cheaper end of the market, Polish companies are expanding as fast as they can to avoid being devoured by their local and multinational competitors as the market consolidates.

Before economic reforms began, the industry was fragmented into around 150 confectionery producers. Many cities boasted several companies producing a vast array of products for every possible taste. But by 1993 the sector had been partly consolidated and wholly privatised and was ready for western investment.

Western companies were attracted by the large Polish market. But they also saw the long chocolate-making tradition as a good platform for exports throughout central and eastern Europe.

PepsiCo started the rush in 1992 by buying Wedel, the Warsaw-based chocolate market leader. Nestlé bought the second-ranked company, Goplana. Kraft Jacobs Suchard bought Olza and the Finnish company Karl Fazer bought Baltyk.

"Foreign companies paid a lot for chocolate factories but they got a brand and a market," says Mr Andrzej Mierzwa, head of MC Concordia. "To buy a Polish company they used to pay 40 per cent of the value of its sales in 1992. Now it is more like 80 per cent."

Foreign companies were able to build on the standing of the Polish companies and their distribution networks to establish their own premium products. They also invested heavily in new production lines such as wafer-making machinery to improve the quality of the existing brands which had bounced back after initial fascination with all things foreign had begun to ebb.

Often foreign and Polish products complemented each other. Mr Janusz Rutkowski, managing director of Goplana in Poznan, western Poland, says producing Goplana's mid-range products alongside Nestlé's premium brands of milkier Swiss-style chocolate increases the company's sales potential and makes distribution more efficient.

However, foreign investors also had to cope with outdated plants, often scattered arbitrarily around a single city or region, and with bloated workforces which they were often obliged to retain for a period as part of the privatisation agreement. Buyers also had to alter a production-centred mentality which took no account of which of the companies' products was actually desired by consumers. When Nestlé took over Goplana in 1994 it had to slim down the company's products from 300 to 90.

Shifting from production to market-orientated methods meant that sales and marketing departments had to be built up from scratch and finance teams revamped. New owners had to clear away a thicket of middlemen between the plants and the retailers and establish a simple distribution system.

Some companies decided that rather than turn round an existing Polish producer they would start from scratch by investing in greenfield plants. Cadbury opened the first such plant in Wroclaw in south-western Poland in 1995 and Masterfoods (makers of Mars bars and Snickers) and the German company Stollwerck soon followed. "It was faster and easier to build greenfield," says Marek Grzegorzewicz, the Cadbury managing director.

These companies took aim at the premium segment of the market, particularly chocolate tablets and countlines (small bars) with their higher margins. Distribution is concentrated on the big retail chains and they rely on expensive television advertising campaigns to appeal to the growing middle class and carve out a share in a still very fluid market. "Now is the moment to build brand loyalty", says Mr Grzegorzewicz. "Later it will be very, very expensive".

Greenfield investors believe exports will help to justify their huge investments at the beginning and, in contrast to cheaper Polish producers, are looking forward to the further lowering of tariffs among neighbouring states in the Central European Free Trade Area (CEFTA) and eventual Polish membership of the European Union. Mr Grzegorzewicz says: "Three years ago CEFTA was not developed. Now the tariffs are reduced, we plan to export more to these neighbouring markets."

Away from this battle of the giants in which 12 companies produce 80 per cent of turnover in the sector, smaller Polish producers are keeping their heads down, exploiting their niche in cheaper segments of the market such as sweets, and taking advantage of their strong distribution networks.

The two main Polish companies in this segment are Jutrzenka, which is listed on the Warsaw bourse parallel market but retains majority employee ownership, and Wawel. The latter is also employee-owned and hopes to follow Jutrzenka on to the stock market later this year. Jutrzenka has used the proceeds of its stock market flotation to modernise its plant and has increased exports to former Soviet countries where the cheaper end of the confectionery market is growing strongly.

These minnows are now eyeing their even tinier competitors and are hoping that through takeovers and perhaps the injection of some foreign capital, they too will become Polish confectionery behemoths.

But the companies in the happiest position are probably the hybrid foreign-Polish companies such as Goplana and Wedel which straddle both the premium and the cheaper segments of the market (and in Wedel's case have also diversified into salty snacks). They can both compete with the fully foreign companies in the profitable premium brand sector and enjoy the big volume sales needed to compete with the cheaper Polish producers.

PROFILE Jutrzenka

Foreign investors beat path to door

When Grzegorz Dolkowski became managing director of Jutrzenka in 1992 the state-owned company ran four unconnected confectionery factories in the depressed industrial city of Bydgoszcz, in north west Poland. In less than five years he has floated the company, increased employment by half and in recent weeks has had two or three foreign investors a week beating a path to his door.

Mr Dolkowski, 45, believes that Jutrzenka can prosper in the highly competitive confectionery market without losing control of its own destiny. "In spite of attractive proposals we have decided not to give away control," he says. "We looked at our competitors who took on such investors and found that things don't look too rosy either for the investors, or the management or the workers".

Mr Dolkowski came to Jutrzenka after working as managing director of the huge Romet bicycle works just down the road where he had started as an engineering apprentice. Soon after taking over he decided that his new company had to be privatised.

"The workers were very afraid. But they trusted me with the powers of a one-man board", he says apologetically. He led them into an employee buy-out in 1993, but in the absence of a foreign investor the company had "pretty weak founding capital".

Instead he opted to seek a listing for the company on the Warsaw stock exchange parallel market in May 1995 which raised $10m to invest in a new plant at Osowa Gora outside Bydgoszcz to add to the company's four old leased factories in the city. Control remained with the company's 1,000 employees because holders of the founding shares enjoyed three votes compared to only one for the new issue.

He used the new funds to build on the company's strength in the cheaper sugar confectionery, biscuit and chocolate covered products segments where foreign competition is not so fierce. The company also invested $15m at its new plant. This now makes a quarter of total production with just 100 workers but is only using 20 per cent of its available space.

Mr Dolkowski has consolidated Jutrzenka's 3.5% share of the growing confectionery market by direct sales promotion rather than media advertising, and by forging close ties with selected wholesalers, who have taken up many of the issued shares.

He also chose to target exports (up to 25m zlotys from only 1.7m zlotys in 1993), especially to countries of the former Soviet Union. The company has just set up a representative's office in Moscow, and insists on payment in advance.

In 1996 net profits rose from 9m zlotys to 11m zlotys on higher sales of 128m zlotys, up from 86m zlotys in 1995. The share price rose 135 per cent last year and the company is currently valued on the parallel market at 188m zlotys and paid out a dividend of 1 zloty per share in 1995.

Jutrzenka, now in its 75th year, is about to raise 260m zlotys for further investment at its Osawa Gora plant through a new issue directed at large institutional investors and eventually hopes to be listed on the main bourse.

"The pace has been so quick it has created new problems," Mr Dolkowski says. "Maybe it would have been easier to slow down. But attack is the best means of defence - the competition is getting stronger and stronger every year".

Robert Anderson

THE STEEL INDUSTRY • by Stefan Wagstyl

Much remains to be done

The sector is moving steadily along the road to modernity and privatisation

Huta Katowice steel complex: talks about a joint $550m investment with Sidmar, an affiliate of Arbed, collapsed Picture: Piotr Malecki

"It's a difficult business," says Mr Jerzy Pierzunek, a foreman at the Sendzimir steelworks in Krakow, "It's a question of changing people's thinking. Some are ready and some are not."

Mr Pierzunek, aged 50, is playing a key role in the modernisation of out-dated plant. He is helping bring on stream Sendzimir's latest investment – a $50m (£31m) continuous casting machine, which will increase quality, cut waste and reduce pollution.

Hot metal pours through it non-stop like a gigantic spaghetti machine. The new equipment requires fewer people, but needs them to work harder and concentrate more. As Mr Pierzunek says: "It's a different world."

Polish steel is moving steadily along the road from inefficiency, pollution and state control to modernity and privatisation.

Since the country embarked on reform in 1990, 11 out of 25 state-owned mills have been sold and a further four have been turned into commercial companies in preparation for privatisation. The industry has invested over $1bn in modernisation, chiefly in continuous casting, raising its production from just 8 per cent of output to 50 per cent. This is planned to reach 90 per cent by 2000.

Overall production has fallen about 30 per cent as old, dirty, loss-making furnaces and mills have closed. But so far the industry has been able to break even and has financed investment from its own resources, with little government support.

Employment within the industry has fallen from 140,000 in 1990 to 91,000 today, with virtually no compulsory redundancies. Jobs have gone mainly through early retirements and through spinning off much of the tangled web of support services which surrounded big Communist enterprises.

However, much remains to be done. A report prepared for the government in 1990 by Canadian consultants recommended total plant investments of $3.6bn, some $2.6bn more than already spent. It estimated a further $900m would have to be spent on financial restructuring and social security payments for laid off workers.

The authors recommended that the industry employ only 43,000 workers by 2002. Government officials say a more realistic target is 75,000. But even this figure will take time to reach as mass redundancies are ruled out on grounds of cost and the risk of public disorder.

The government sees foreign investment as essential to the industry's modernisation and is seeking capital, technology and management skills from abroad.

Mr Wiktor Laszczyk, deputy director of the industrial policy division at the economics ministry, says: "We are looking for strategic foreign investors."

The need for foreign investment is greatest at the two largest steel complexes – Huta Katowice, in the heavily-polluted Silesian region, and Sendzimir. Together they account for about 30 per cent of output and employ about 50,000, including workers in affiliated companies.

The state-owned plants are creations of central planning, built on sprawling sites, covered with grey dust and littered with rusting metalwork.

Of the two, Huta Katowice is the worse. The complex, built in the 1970s, has vast capacity for crude steel production but limited plant for fabricating finished goods, forcing it to sell about half its output as low-margin, semi-finished steel. This did not matter under the Communist regime, when prices were set artificially, but today it is a crippling disadvantage.

Huta Katowice's problems are compounded by the fact that it was designed mainly for making long products – such as construction beams – and the industry's recent growth has mostly been in sheet metal.

Although the mill has installed one continuous caster and is fitting a second this year, at a combined cost of $170m, downstream investments have yet to be made.

It spent much of last year in negotiations with Sidmar, an affiliate of Arbed, the Belgian steel group, about a joint $550m investment for a third continuous caster and a rolling mill, but the talks collapsed over disagreements about government support and market size. Mr Jerzy Smedzik, a Huta Katowice director, says he is now talking to other western groups.

The Sendzimir plant dates back to the 1950s, but has the advantage of more in-house processing plant, including sheet-rolling mills. Its recent investments of $400m have concentrated on continuous casting and on building Poland's only mill producing zinc-plated steel.

It is now seeking foreign partners with $300m-$600m to help switch the whole plant to continuous casting and expand downstream milling. Preliminary documents were sent to about six groups last month. Mr Tomasz Pyrc, corporate strategy director, says he hopes a deal will be agreed this year or next.

The industry is not planning significant expansion in output from 10m-12m tonnes a year, but it hopes investments will improve profits by increasing added-value.

Contrary to the fears of some European Union steelmakers, Polish mills do not plan export increases above recent levels of about 3.5m tonnes a year. As in most countries, the cost of shipping steel means domestic markets are more lucrative.

However, steel is the subject of tense negotiationsbetween Poland and the EU.

Under the terms of a 1992 agreement, Poland is working towards having zero steel import duties by 1999. But in order to extend protection, it has this year frozen them at 9 per cent, instead of cutting them to 6 per cent. It wants to keep duties in place until 2002 to give more time for restructuring.

Warsaw says the EU steel industry was restructured only with the help of huge state aid, some of which is still being paid. In Poland, while the government may find scope for modest tax-breaks to support new investment, there is virtually no hope of EU-style hand-outs. For the most part, Mr Pierzunek and his team at Sendzimir are on their own.

AGRICULTURE • by Christopher Bobinski

Long difficult road to modernisation

Brussels holds the key to the somewhat clouded future of Polish farming

Farming will be the most contentious issue in Poland's membership negotiations with the European Union. But accession to the EU will also leave the country's farmers facing the greatest challenge to their way of life since they successfully resisted the communist land collectivisation drive in the 1950s.

Polish agriculture is big but technically backward. It employs 26 per cent of the population but produces only 6 per cent of GDP. Furthermore, the 38 per cent of Poles who live in the countryside provide the Polish Peasant Party (PSL), the farmers' party, with a powerful political base from which to lobby for farm interests. Mr Waldemar Pawlak, the PSL leader, has signalled he is in favour of EU membership but will fight hard to get the best deal for his farmers, whose numbers total more than the population of many medium-sized EU members.

Poland emerged from communism with 80 per cent of its land in private hands and over 2m small holdings, averaging 6.3 hectares in size. The post-1990 slump, when free market reforms slashed subsidies and demand for food fell, signalled that change was inevitable. But in the short term the shock brought only a small improvement in structure. About 130,000 farms have disappeared since 1990, but the average size has only risen to 7 hectares. Many small farmers have also lost their second jobs in towns. More than 1m of the 4.4m workers on private farms are part-time and must supplement their incomes.

Farm output grew marginally last year although the 15.6 per cent rise in farm prices failed to match either the 18.5 per cent rise in consumer good prices or the higher cost of farm equipment and other inputs. The grain harvest fell 3.5 per cent to 24.7m tonnes and 2m tonnes were imported to keep prices down.

Sales of EU farm products rose 15 per cent in the first nine months of 1996 to $1.2bn while Polish food sales to the EU fell 5 per cent to $883m in the same period. Poland's global food trade deficit reached $772m in this period and farmers were saved only by sales to the former Soviet Union of $802m last year.

With an eye on gaining high quotas Warsaw has told Brussels that it estimates farm output will continue to grow strongly over the rest of the decade with grain output up 16 per cent to 29m tonnes by the turn of the century and milk output 40 per cent higher at 16bn litres. Meat deliveries are forecast to grow by almost 60 per cent. But whatever deal Poland wrings out of Brussels, the country's overpopulated, largely unsubsidised family farms, which produce cheap food by natural methods for want of cash for fertilisers and pesticides, are no longer in control of their future. Their fate is being shaped by the disciplines of the free market as a largely private food processing sector demands improvements in quality and higher productivity from its suppliers.

This impulse for change would be there even if EU membership were not looming. The big foreign mega-store food retailers now coming to Poland will put additional pressure on processors to improve quality and cut costs, says Mr Subhrendu Chatterji, of Britain's Know How Fund, who is helping to unravel bad debts at the Farm Economy Bank (BGZ).

Such pressures are welcome says Mr Marian Brzoska, an agricultural expert from the government's European Integration Committee, who stresses that the key to farming's future lies with the processors. Polish farms add too little value to farm products, which explains the deficit in food trade with the EU and the inability of Polish farmers to compete effectively in foreign markets, apart from the former Soviet Union.

Only the processors have the financial clout to provide the capital the farmers need to buy machinery and improve quality. Mr Brzoska cites Danone, the French dairy goods processor, which controls much of the Warsaw market and has been working with farmers in Ostroleka, north-east of the Polish capital. "Danone signs contracts with the farmers, who get a reliable flow of cash, so they can raise money to buy equipment. A Dutch government aid programme has advised them what to do and they are now producing world-class quality milk," he says.

Mr Brzoska insists Poland must have pre-accession funds from Brussels to finance the creation of new jobs in the countryside to soak up excess labour. "There is simply too little capital in the rural areas for farm modernisation, let alone to start up new companies," he says.

Nevertheless, the outline of a more modern farming structure able to compete on cost and quality is beginning to emerge from the mass of small farms. Almost one-third of arable land in the former private farm sector is in the hands of more than 160,000 farmers owning farms of 15 hectares or more. Some 43 per cent of these farmers are less than 40 years old. These mainly young, progressive farmers are the only ones able to raise bank loans and modernise equipment.

Meanwhile, almost 90 per cent of the 4.5m hectares once held by the state are now in private hands, mostly under leasing arrangements.

8 POLAND

GRADUATE JOBS MARKET • by Stefan Wagstyl

Professionals' new world

The new middle class are gaining from fast but painful social changes

"I like to read Lee Iaccoca," says 26-year-old Piotr Wielgomas. "It's all about achieving success."

Mr Wielgomas, the founder and general manager of Bigram, a fast-growing recruitment agency, is one of tens of thousands of young Poles who are rapidly creating a new professional middle class. Aged between 22 and 35, they work for Polish and foreign companies alike and are often keen to establish their own businesses. They compete fiercely for the best jobs in a country where opportunities for good careers are still scarce. "It's a rat race," says Mr Wielgomas. "When people tell me they've sent off one or two CVs, I tell them that's nothing. They must send 100."

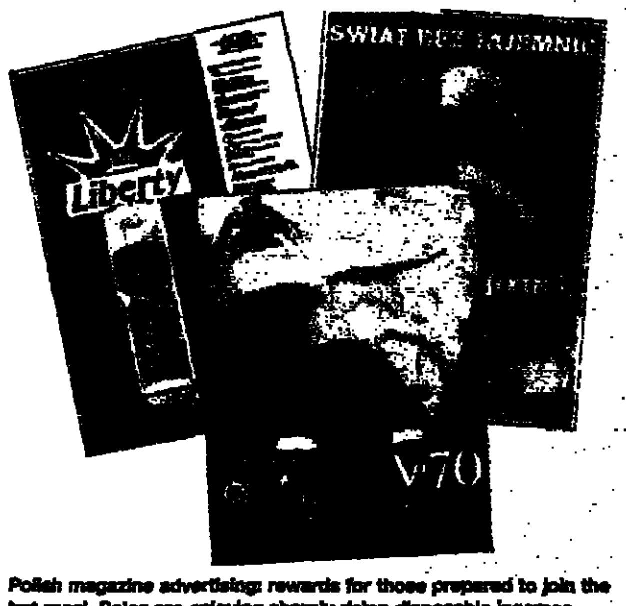
With countless companies starting life every year, and many folding within a few months of opening, markets move very fast for young professionals. Mr Piotr Batogolowski, managing director of Hager Poland, an affiliate of Hager, an Austrian advertising agency, has changed jobs five times in the last five years. A 33-year-old law graduate, his first job was in journalism but his newspaper collapsed. He found a job in a US advertising agency, then with a German one before joining Hager just three years ago. Today, he runs the group's Polish business, with a 24 per cent equity stake of his own. He plans to stay with Hager, but is considering launching other businesses. "A travel agency, perhaps because I like travelling," he says.

At the recruitment agency, Mr Wielgomas says: "In Poland your career can change as much in four or five years as in 10 in the west." But stability is creeping into the market. For example, Ernst & Young, the international accountancy firm which already employs about 300 staff in Poland, is putting long-term career structures into place. Rival firms are doing the same.

Of course, these jobs are not open to all. Graduate unemployment is high in Poland, as is unemployment as a whole. The fortunate few are likely to be graduates of elite institutions such as Szkola Glowna Handlowa, the top commercial university. They will almost certainly know English and have spent some time working abroad, perhaps in a bar in London or fruit-picking in Italy. Mr Wielgomas says that evidence of drive and initiative is very important. He himself paid his own way through five years of study doing holiday jobs.

By western standards, starting salaries are not high - 1,500-3,000 zlotys a month for top graduate jobs in central Warsaw. But they rise rapidly for people with a few years experience, to 10,000 zlotys and beyond. For key managers, international companies will pay Poles the same salaries as expatriates, knowing that they will still be cheaper because they will not have to pay expatriate allowances.

However, Mr Wielgomas says salaries are not the most important issue for the new professionals. What they want most is a good career. Finding companies which offer training and promotion prospects is a top priority. Ambitious people also spend their own time and money on further education – doing evening classes in languages, computing and management studies, for example.



Polish magazine advertising: rewards for those prepared to join the 'rat race'. Poles are enjoying sharply rising disposable incomes

But life is not all work, says Mr Wielgomas, who has just returned from two weeks skiing in Austria and plans a two week summer holiday. Travel, reading, tennis, swimming and spending time with his wife, a lawyer, are also important. Mr Batogolowski agrees. "Whatever I do, I think of my wife and child," he says, "And I consider my friends and help them when I can." These informal networks are important when life is changing so fast. "Also, the experience of martial law in the 1980s brought people of my generation together. I don't know how it will be for younger people. Perhaps they are more selfish."

There is a sense of urgency about business life in Warsaw. Young professionals recognise they are living lives quite different from their parents'. They say they are lucky to be free of the burden of Communism which placed such restrictions on previous post-war generations. They also recognise that they have a rare opportunity to achieve more in a short time than their predecessors - and possibly their successors. As Mr Wielgomas says: "Over the next few years things will move very fast. After that life will become more settled. More normal."

This excitement is not spread evenly through Poland. It is concentrated in Warsaw, where the population is growing rapidly as young people come from elsewhere seeking work. It is also present in a few other big cities - Gdansk, Poznan, Wroclaw and Katowice. But large swathes of rural and small town Poland have still to sense the opportunities that economic freedom is creating. Even in Warsaw, the new professionals are sometimes thin on the ground. While city centre restaurants boast that they stay open till the last guest is ready to go, they begin to look empty after 10 o'clock in the evening. Few people have time for concerts or the theatre.

Some professionals are also disturbed by the growing economic inequality. Even though they are mostly beneficiaries of economic change, they do not like to see the pain it has inflicted on others. It is not just a matter of the beggars on the streets of Warsaw. In almost every family, there are people who have not had the luck, skill or determination to secure good jobs. Mired in low-pay posts in state organisations or in low-level pensions, they look enviously at those relatives who have made the jump into a different world. As Mr Andrzej Sienkiewicz, 35-year-old editor of Machina, an arts magazine, says: "This inequality is very demoralising. Particularly when you see people who have made money unfairly, through their contacts in the government or whatever."

Mr Wielgomas says that after 50 years of Communism it will take time to put society to right. But he is convinced that he and his generation have the opportunity to do it. "We have a chance to change this country."

CONSUMER TRENDS • by Robert Anderson

Rapid growth in spending

Rising wealth and credit cards are funding a boom in conspicuous consumption

Poles are enjoying sharply rising disposable incomes and are beginning to spend their new wealth on expensive consumer durables such as cars, furniture and washing machines. The consumer boom, which started with basic items such as western toothpaste and soft toilet paper, has moved on.

In the early stages of transition to a market system consumption dropped and local production of consumer durables fell as the market opened to western competition. But last year household income rose about 7 per cent above inflation and in the first three quarters of the year monthly household spending increased by 27.5 per cent on the same period of 1995.

According to GUS, the state statistics agency, spending in supermarkets and the larger stores rose 7.5 per cent overall last year, but spending on cars increased 31 per cent, furniture sales grew 30 per cent, and spending on televisions, radio and white goods was up 12 per cent.

For the first time, much of the increased spending was on credit, helped by low interest rates. Personal loans doubled in the year to October 1996, from a very low base. Until now inflation, uncertainty and the weakness of the financial sector had prevented credit growth. But the banks have become so eager to approve loans that the central bank is getting worried. In another indication of rising credit use, the number of credit cards, though still not widespread, tripled in 1996.

The boom has been fuelled by the desire for conspicuous consumption that impresses the neighbours and family. Poles have the highest proportion of "aspirers" among all the countries surveyed in a recent study of European consumer trends by advertising agency Young and Rubicam, and twice the rate in neighbouring Hungary, the UK and Germany. Aspirers, according to the agency's Cross Cultural Consumer Characteristics study, are those who are obsessed by status, image, labels, and material things and are demonstrative about their wealth.

Polish consumers started buying heavily advertised imported premium brands of affordable goods such as confectionery and toiletries. Western companies primed the consumer goods sectors through advertising and by investing to produce better quality products, says Mr Andrej Mierzwa, manager of MC Concordia investment bank. Poles quickly developed very high brand awareness.

Polish companies soon woke up to the potential of the sectors that had been promoted in this way and have since benefited from a shift back to Polish brands as the original infatuation with everything foreign waned. "Newness is not so important now. Price is becoming extremely important," says Mr Frederick Winckler, Warsaw manager of J.Walter Thompson. His advertising agency is now less involved in promoting western premium brands and spends much more time turning Polish generic products into brands and working with international clients on mid-range products.

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IN BRIEF

Ford suffers losses in Germany

Ford-Werke, the German arm of the Ford Motor Company, announced fresh cost-cutting plans, including trimming workers' benefits, after announcing a DM509.9m ($302m) pre-tax loss last year. Page 26

CIC chairman calls for fresh investment
The new chairman of CIC, the French state-owned bank, called for outside investors to take stakes in the regional banks in its network alongside a process of partial privatisation of the holding company. Page 26

Hochtief and Holzmann in joint venture
Hochtief and Philip Holzmann, Germany's leading construction groups, buried the hatchet after a bitter two-and-a-half year dispute by announcing a joint foreign strategy to take on international competition. Page 24

Seat declares crisis over
Seat, the Volkswagen group's Spanish carmaker, declared its crisis over and announced a net profit of Pta5.34bn ($37.2m) for 1996 after four consecutive years in the red. Page 26

TrizecHahn agrees CN Tower deal
TrizecHahn Corporation has agreed to lease Canada's landmark CN Tower and develop a retail and entertainment complex on the adjoining land. Page 28

Italy's Cir to merge media titles
Carlo de Benedetti's Cir holding company strengthened its control over its media activities through a merger of its various newspaper and magazine titles. Page 24

New World Development net profits up
New World Development, the Hong Kong-based property conglomerate, reported a 29.2 per cent rise in net profits for the first half to December 1996, from HK$1.7bn to HK$2.2bn (US$284m). Page 27

P&O chairman predicts upturn in profits
Lord Sterling, chairman of the UK-based shipping and transport group P&O, predicted an upturn in profitability this year and next because of restructuring during 1996. Page 29; Lex, Page 22

Companies in this issue

ABB Lummus Global	4	MacroAsia	23
AEX	26	Marks and Spencer	8
AOL	1, 27	Marvel	28
Abbey National	29	Merck	24
Acesita	28	Merrill Lynch	28, 1
American Airlines	4	Minh Phung Garment	6
Australian Mutual	29	Moore	28
Austrian Airlines	8	Multiplic	28
BHF-Bank	24	Netcom	1
BICC Cables	8	New World Dev	27
BMW	23	News Limited	27
Baltimore Gas&Elect	5	Nissan	8
Bank IG	29	Nomura Securities	22
Barclays Bank	10	Optus Vision	27
Bezeq	24	P&O	29
Blue Circle Cement	8	Pacific Telesis	1
Boeing	6	Pepco	5
Bre-X	32	Perodua	8
British Airways	4	Philip Morris	28
British Telecom	8	Philippine Airlines	23
CIC	26	Pilkington	29
CIR	24	Powergen	8
Cammell Laird	8	Proton	8
Cellnet	8	Prudential	29
Codelco	28	Railtrack	8
De La Rue Fortronic	4	Rolls-Royce	4
Deutsche Bank	24	SAS	8
Dresdner Bank	24	SCI Systems	24
EasyJet	2	SM Prime	27
Electrabel	2	San Paolo di Torino	24
Epco	6	Scotia	29
Ericsson	24	Scottish & Newcastle	8
Eurotunnel	22	Scottish Amicable	29
FLS Industries	28	Seat	26
Finnair	8	Seven Network	27
Fokker	26	Shanghai Automotive	6
Ford-Werke	26	Sino Land	6
Gallaher	8	Smiths Industries	8
General Motors	6, 8	Snecma	4
Générale de Sante	24	Solectron	24
Habib Bank	6	Stork	26
Hochtief	24	Suez	24
Holzmann	24	Swissair	8
Honeywell	8	TWA	8
Hypercom	4	TWR	23
Iberia	4	Tarmac	4
John Fairfax	27	Taylor Woodrow	29
KLM	2, 8	Thyssen	23, 24
Khazanah	26	Tokyu	27
Kraft Foods	28	Toppan Moore	28
Krupp Hoesch	23, 24	Toyota	1
Kvaerner	8	Tractebel	24
Leo Burnett	28	TrizecHahn	28
Lloyds TSB	28	United Distillers	8
Lyonnaise des Eaux	24	Vodafone	8
L'Espresso	24	Volvo	23
		Walt Disney	8

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
DLW	165	+	4
Karstadt	593	+	16
MAN	473.5	+	18.0
Rheinmetall	302	+	7
Falls			
Goldschmidt	650	–	20
Thyssen	375.5	–	42.0
NEW YORK ($)			
Rises			
Adv Micro	40	+	2¾
Stratus Inc	16	+	2
Times Mirror	31	+	1⅛
Falls			
Allstate	17	–	1⅛
Global Direct	20½	–	7½
Whitehall	34⅜	–	2⅜
LONDON (Pence)			
Rises			
Financial Pptd	242½	+	27½
Polymasc Pharm	137½	+	19
Scotia Hldgs	419	+	40
Falls			
Medeva	74	–	15½
Symonds	38½	–	20½
Vere Group	161½	–	16
TORONTO (C$)			
Rises			
Isor Pharm	8.25	+	1.80
Phoenix Intl	10.35	+	1.25
QLT Photother	33.75	+	2.25
Falls			
CRS Robotics	4.6	–	0.4
PE Ben Oil	4.6	–	0.4
Riverside Fr	15.6	–	1.0
PARIS (FFr)			
Rises			
Bancaire Comp	761	+	31
Christian Dior	829	+	22
Damart	4825	+	385
CLF-Dexia Fr	589	+	19
Schneider	301.8	+	7.2
Total B	478	+	15.5
TOKYO (Yen)			
Rises			
Asahi Bank	841	+	42
Iwatsu Elec	379	+	24
Meiji Milk	551	+	36
Meiji Seika	572	+	37
Nisshin Oil	583	+	42
Renown	246	+	29
HONG KONG (HK$)			
Rises			
Changda Tele	0.99	+	0.05
China Merchant	5.6	+	0.35
Cultuurcom	0.27	+	0.03
Ka Wah Bank	3.47	+	0.15
Falls			
Mei Ah Intl	0.27	–	0.02
Pudong Dev	1.4	–	0.09
BANGKOK (Baht)			
Rises			
Bangkok Union	34.25	+	3.00
Eastern Wire	27.5	+	2.5
Siam Gen Fac	24.75	+	2.25
Falls			
Central Pat	62.0	–	6.5
Precious Ship	49.75	–	5.25
Renown Co	42.0	–	4.5

New York and Toronto prices at 12:30.

Thyssen and Krupp merger plan aims to avoid compulsory redundancies

German steel talks focus on jobs

By Peter Norman in Bonn

Thyssen and Krupp Hoesch hope to streamline their steel output in a joint company without resorting to compulsory redundancies, according to plans being discussed by the two companies.

The groups, which yesterday continued negotiations on a planned merger of their steel operations, have concluded that there are large economies of scale to be made once restructuring difficulties end. It could be as much as three years before the full benefits of the merger are felt.

Important details of the merged company have been agreed between Mr Dieter Vogel, the chief executive of Thyssen, and Mr Gerhard Cromme, his counterpart at Krupp Hoesch.

Thyssen is expected to have more than 60 per cent of the joint venture to reflect its higher share of production and greater profitability in steel-making. The outline of the joint company, which will combine Germany's biggest and second biggest steelmakers, will be presented to Thyssen's board tomorrow and that of Krupp next Wednesday.

The merger plan will try to limit job losses because of the political outcry and demonstrations by steel workers that followed Krupp's plan, now abandoned, for a hostile take-over of Thyssen. But strategists in the companies expect there will have to be job cuts at Krupp's lossmaking Dortmund plants beyond the 2,200 announced this year.

The IG Metall trade union demanded that there should be no extra job losses in Dortmund as one of several conditions for its acceptance of the merged steel group. But steelmaking costs there are about DM30 ($17.70) per tonne higher than at other sites in the combined group.

Krupp and Thyssen are expected to plan for retraining and new jobs in steel and non-steel sectors in the region and seek support from the state of North Rhine Westphalia, which has been involved in the merger talks.

Thyssen Stahl, the steel-making arm of Thyssen, has started cutting jobs. The group's workforce, which declined by 9.1 per cent to 36,000 in the year to September, is due to fall to about 30,000 by the end of this financial year. The company's plans focus on production of hot strip steel and its derivatives and aim for group sales of DM12bn in 2000.

The merged company will rival British Steel, the biggest European producer, in terms of output. However, according to Mr Terence Sinclair, a steel analyst at Salomon Brothers in London, labour productivity, measured in D-Marks, "is 25 per cent worse at Thyssen and Krupp" than at Hoogovens of the Netherlands and at British Steel.

Troubles just starting, Page 24

Volvo to develop bus chassis with UK partner

By Haig Simonian in London

Volvo, the world's second biggest bus maker, will today announce it is putting its chassis development activities into a joint venture with the UK's TWR automotive engineering consultancy.

The new company, majority owned by TWR, will develop chassis for Volvo's buses and coaches. The first result of the co-operation will appear early next century.

The venture will be the second between Volvo and TWR. Last year Volvo's cars subsidiary and TWR set up AutoNova, a TWR-controlled joint venture to manufacture Volvo sports models at the Swedish group's Uddevalla plant.

AutoNova will soon start volume production of Volvo's new C70 coupe and cabriolet, with output expected to reach 20,000 units in the first full year.

Details of the bus venture are sketchy, amid some surprise at the choice of TWR as Volvo's partner.

Rationalisation is expected in the overcrowded world bus industry and TWR has had no previous experience in commercial vehicle engineering.

"If you're experts in the car business you also have the knowledge to transfer to other sorts of vehicle," said a Volvo official.

Volvo Bus Corporation built 7,410 vehicles last year, ranking it second in the world behind Mercedes-Benz of Germany.

TWR, based in Oxfordshire, is a privately-owned group comprising an automotive engineering consultancy, car retailing and motor racing. It is owned by Mr Tom Walkinshaw, the former racing driver, and employs nearly 2,000 people.

TWR is probably best known for its motor racing activities. It won the European touring car championship and Le Mans for Jaguar in the 1980s, and is currently running Volvo's touring car programme and a Le Mans challenge for Nissan.

Mr Walkinshaw, closely involved with the Benetton Formula One team until recently, bought the Arrows team last year and engaged world drivers' champion Damon Hill as lead driver.


BMW chief Bernd Pischetsrieder yesterday: higher sales are partly the result of new models Reuter

BMW sales up as Rover arm stages recovery

Warning that growth will slow

By Frederick Stüdemann in Munich

BMW, the German motor company, yesterday reported a 22 per cent surge in first-quarter sales to DM14bn ($8.3bn), and signalled the return to health of Rover, its UK car-making subsidiary.

Production in the quarter rose 13 per cent to 319,000 vehicles, and the number sold rose 8 per cent to 285,000.

Mr Bernd Pischetsrieder, group chairman, attributed the buoyant figures in part to new models, such as the 5 series and the Z3 roadster.

He warned the rate of growth was not sustainable, although he said the group was confident the full-year result would be ahead of 1996. Sales at Rover were DM14.9bn in 1996, up from DM12.9bn in 1995. Losses were cut from DM335m to DM279m.

The exchange rate used by BMW – of DM2.3478 to the pound – translates the loss to £119m against £158m in 1995.

Mr Volker Doppelfeld, group chief financial officer, said the result showed that "our goal of reducing the burden on profits from Rover has been achieved".

Mr Walter Hasselkus, Rover chairman, announced an increase in total investment this year from £470m to £600m.

Rover also plans to introduce more flexible working hours through a "banking system" similar to that already in use at BMW in Germany. Under the system, staff can work up to 200 hours more or less depending on order flows.

Given the importance of export business to Rover, the strength of the pound was a worry, Mr Hasselkus said. He warned that if the pound moved higher, Rover might have to obtain more supplies from outside Europe.

At BMW, group sales rose 13.3 per cent to DM52bn, while net income was up 18.5 per cent to DM820m. The bulk of sales came from the core BMW brand, where turnover rose to DM36.8bn. Pre-tax profits from ordinary business activities were DM2.38bn, up from DM2.18bn.

In the first quarter, vehicle sales at Rover rose 1 per cent to 124,000. In revenue terms the increase was 21 per cent to DM3.6bn, reflecting a different mix of models with greater concentration on cars at the higher end of the range.

Pre-tax losses at BMW Rolls-Royce, an aircraft engine manufacturer jointly owned with Rolls-Royce, were DM627m in 1996, down slightly from DM652m in 1995.

Lex, Page 22

Philippine Airlines move prompts listing rumours

By Justin Marozzi in Manila

Philippine Airlines (PAL), the ailing carrier, yesterday bought a 70 per cent stake in MacroAsia, a little-known listed Philippine holding group, triggering rumours that it was about to launch a back-door listing.

MacroAsia, which runs helicopter taxis, inflight catering services and a property development business, told the Philippine Stock exchange it had approved the sale to PAL of 700m pesos ($26m) worth of new shares. "This will amount to a takeover once completed," said Ms Gemma Santos, corporate secretary.

Earlier this month, PAL said it was considering a back-door listing by acquiring a company which had been "inactive for years". With a market capitalisation of 1.4bn pesos, MacroAsia is among the smallest companies on the Manila exchange and is considered a dormant stock.

Mr Jaime Bautista, PAL's chief financial officer, said MacroAsia was an attractive target because it was a public company, but he denied the acquisition was a prelude to a float.

"I don't think this is a back-door listing," he said. "It's a strategic investment to buy this company and later use it as a vehicle to spin-off certain PAL interests. We have other plans for this company."

Analysts said the move had all the makings of a back-door listing. "I don't think this is a strategic move at all because the company has no significant business that PAL would be keen on," said one. "Why would it pay 700m pesos for a company this small when it is already losing 2bn pesos a year?" A listed PAL would mark a significant change in the business empire of Mr Lucio Tan, chairman and majority shareholder. The Filipino-Chinese tycoon has preferred to keep his business interests private.

Nevertheless, PAL needs cash to complete its $4bn modernisation programme. In January, it doubled its authorised capital to 20bn pesos to help finance the acquisition of 36 aircraft.

The group lost more than 2bn pesos last year and is forecasting further losses of 2bn pesos this year, which would disqualify it from seeking a listing on the exchange.

Under regulations, a company must show a three-year history of profits before floating. Acquiring a listed company avoids the need to comply with this requirement.

MacroAsia shares rose 20 centavos to 5.7 pesos.

Indonesia gold licences ready

By Manuela Saragosa in Jakarta

Mining companies in Indonesia are set to be awarded exploration licences after months of delay because of the political wrangling over control of east Kalimantan's Busang gold deposit, claimed to be the world's richest.

The award of the licences for 69 mining projects, including the long-awaited contract of work for Bre-X, the Canadian exploration company that discovered the Busang deposit, will be a relief for the mining industry in Indonesia.

Although there is no automatic right to develop a site, it has been customary for an exploration company to receive a contract following a discovery. However, the Busang affair raised fears that the process might become more politicised after President Suharto's children became involved in a battle between international mining companies over who was to be appointed Bre-X's joint-venture partner in the Busang project.

After a long battle for control, Busang's ownership was split last month, with 10 per cent going to the Indonesian government, 30 per cent to two Indonesian companies controlled by Mr Mohamad Hasan, one of President Suharto's closest advisers, 45 per cent to Bre-X and 15 per cent to the US mining company Freeport McMoRan Copper & Gold.

Most of the companies waiting for contracts are also Canadian, a reflection of the aggressive exploration being undertaken by Canadian mining companies in Indonesia. Canada's Placer Dome, which lost its bid to take part in the Busang project, has received approval for a gold project in central Kalimantan and a general mining project in Irian Jaya, a gold mine in Aceh, north Sumatra.

Barrick Gold, which was the Indonesian government's first choice of partner for Bre-X after it teamed up with President Suharto's eldest daughter, Mrs Siti Hardijanti Rukmana, has received approval for nickel and gold projects in Irian Jaya and a gold mine in eastern Indonesia.

Bre-X's share price fell to a 52-week-low in Toronto after the death of geologist Mr Michael de Guzman, coupled with an Indonesian newspaper report last Friday that Busang contained less than the estimated gold reserves. However, shares recovered slightly in early trading yesterday, rising 15 cents to C$15.85.

Commodities, Page 32

Hochtief and Holzmann to co-operate

By Sarah Althaus in Frankfurt

Hochtief and Philipp Holzmann, Germany's leading construction groups, yesterday buried the hatchet after a two-and-a-half year dispute by announcing a joint foreign strategy to take on international competition.

The tussle ended on Monday when Hochtief and Deutsche Bank announced they were pooling their interests in Frankfurt-based Holzmann to give them effective control with just under 50 per cent.

The plans involve co-operation in foreign activities and the possible establishment of a common investment policy. The two sides said they would also investigate closer links in Germany.

The decision to form closer links follows a long-running battle by Hochtief for control of Holzmann, its larger rival.

The move, which is subject to approval by competition authorities, was seen as a way of side-stepping objections by the German Cartel Office that a wider link-up between Holzmann and Hochtief would create a dominant force in the domestic industry.

Detailing the pooling agreement, all parties stressed there were no plans for a merger. Mr Carl-Ludwig von Boehm-Bezing, a member of Deutsche Bank's board, said the bank would pool a 25.1 per cent stake with Hochtief's 24.9 per cent stake in a frozen account for at least 10 years and that the two would vote jointly at Holzmann's shareholder meetings.

He added that Deutsche Bank would sell its remaining 0.7 per cent on the open market. Holzmann's other main shareholder is Commerzbank, with 10 per cent.

"While both companies are in the international [construction] league, neither has a leading position ... in order to meet this challenge and particularly to achieve an equal chance of participating in international consortia, it is necessary to establish a global alliance," Mr von Boehm-Bezing said.

He added there were few overlaps in the two group's foreign activities, with Hochtief's operations based mainly in the Netherlands, Australia and South Africa, and Holzmann's in the US and Asia.

Mr von Boehm-Bezing said he saw a "fair chance" that European competition authorities would approve the deal in the next six months.

However, the German Cartel Office yesterday reacted angrily to the agreement, saying it had "serious reservations about [its] competitive implications" for the domestic market and that the case should be investigated by the German and not the European authorities.

Belgium seeks to protect Tractebel

By Andrew Jack and David Owen in Paris and Neil Buckley in Brussels

The Belgian government is studying proposals to safeguard the utility company Tractebel in the event of a merger between the French Lyonnaise des Eaux and Suez, its largest shareholder.

The government said yesterday it was considering a number of ideas which arose from two recent top-level meetings between Mr Jean-Luc Dehaene, the prime minister, Mr Gérard Mestrallet, chairman of Suez, and Mr Etienne Davignon, chairman of La Générale, Suez's intermediary holding company.

Mr Dehaene discussed the proposals with his deputies at the weekend.

The latest development indicates the sensitivity about French corporate activities in the country, in view of the importance of Tractebel and the controversy caused by Renault's recent decision to close its Belgian factory.

It could also throw into jeopardy any plans for a fundamental restructuring of the utilities assets of Suez, including Tractebel, after a merger with Lyonnaise des Eaux, rendering the deal less attractive to shareholders.

However, sources close to Lyonnaise des Eaux indicated yesterday that they did not believe cost-cutting or a combination with Tractebel would be part of any merger plans. They are focused instead on co-operating with the Belgian utilities in foreign markets for multiple-utilities contracts including water - Lyonnaise' speciality - and electricity generation - Tractebel's principal activity.

Meanwhile, the merger proposals - which could be unveiled next week when Lyonnaise and Suez publish their 1996 results - continued to generate opposition. Générale des Eaux, the rival utilities group and a shareholder in Suez, is determined to prevent the merger threatening its dominance in the French market.

Cir tightens grip on media activities

By Paul Betts in Milan

Mr Carlo De Benedetti's Cir holding company yesterday strengthened its control over its media activities through a merger of its various newspaper and magazine titles.

The move will see Editoriale L'Espresso, which publishes the Italian weekly news magazine L'Espresso, absorb La Repubblica, one of the country's leading newspapers, as well as the Editrice Periodici Culturali magazine group.

The merger will leave Cir with a 52.5 per cent controlling stake in the new Editoriale L'Espresso company. It now controls about 60 per cent of L'Espresso, through which it controls directly and indirectly 76.1 per cent of La Repubblica.

Mr Carlo Caracciolo, chairman of Editoriale L'Espresso, will become the second biggest shareholder with 8.9 per cent of the new company.

Editoriale L'Espresso already has full control of Editrice Periodici Culturali and will absorb La Repubblica through a share exchange of 47 L'Espresso shares for every 100 La Repubblica shares.

The announcement coincided with the release of figures showing a strong improvement in the Espresso group's performance last year. Gruppo Espresso reported consolidated net profits of L29.4bn ($17.39m) on sales of L1,254.5bn in 1996, compared with L12.5bn net profits and L1,119.2bn sales in 1995.

Net profits of the Editoriale L'Espresso parent company rose from L700m in 1995 to L18.6bn last year, while La Repubblica reported net profits of L25.2bn for 1996 after losing L2.3bn in 1995.

● RCS Editori also reported a significant turnround yesterday. The company, which publishes the Milan daily Corriere della Sera and owns the Rizzoli publishing activities, said it made a consolidated net profit of L1.5bn in 1996 reversing a huge loss of L728.6bn in 1995.

RCS Editori is owned by the HPI holding company which is being absorbed with the Marzotto clothing and textile group.

Troubles just starting for 'Krupp-Thyssen'

After the heat of battle, there was generosity on all sides. The official line after Monday's announcement that Krupp Hoesch had dropped the idea of a hostile bid for Thyssen, its bigger steel and engineering rival, was that there were no winners or losers. The decision of the two companies to press ahead with talks on a friendly merger of their carbon steel interests was hailed as a victory for common sense.

But behind the scenes, the bankers and advisers drafted in to support the two sides were yesterday marking their score cards. While it is impossible to make a final judgment before knowing the terms of the steel merger, it is clear that both Mr Gerhard Cromme, Krupp Hoesch chief executive, and Mr Dieter Vogel, chief executive of Thyssen, face testing times.

At first sight, Mr Cromme looks a clear loser. Krupp's statement dropping the bid before the deadline of tomorrow that it had set for an agreement on a joint steel venture was puzzling and smacked of retreat. So, too, did the Krupp pledge not to make a takeover offer for Thyssen in the future.

Mr Cromme's reputation as an aggressive and successful manager has suffered a blow, even though it can be claimed that he acted in the interest of public order by backing down before yesterday's protests by steel workers in Frankfurt.

One explanation put forward by Krupp supporters was that the steel talks had advanced to a point where the company could abandon the idea of a bid, secure in the knowledge that it would achieve 70 per cent of the synergies that it sought through a hostile takeover.

This is plausible if it is assumed Krupp was desperate to be rid of its loss-making steel interests. But Thyssen, which is expected to have more than 60 per cent of the future joint company, will call the shots in the new venture and can be expected to negotiate financial terms that reflect the losses being incurred by Krupp's operation in Dortmund.

For Thyssen's Mr Vogel, problems could begin once agreement on the joint steel venture has been reached. A big part of his defence was his ability to mobilise his workforce. He fought the battle in close alliance with the workers' councils, which in turn were allied with the threatened steel workers of Krupp Hoesch.

The trade union influence in the talks has been considerable – Mr Harald Schartau, the IG Metall union's leader in North Rhine Westphalia, has taken part in some of the negotiations. Even if this means that the union will be under no illusions about the necessity of plant closures, including some at Dortmund, negotiations with the workforce on rationalisation measures could be protracted and costly.

At the same time, Mr Vogel will have to satisfy his shareholders, who were given a glimpse of a DM435 cash bid and saw Thyssen shares tumble 8.7 per cent to DM375 yesterday.

Before the bid, Mr Vogel was pursuing a policy of portfolio readjustment to correct the imbalance between profitable and unprofitable parts of the steel and engineering conglomerate. He told this month's annual meeting that the programme of building up profitable core interests and shedding loss makers would take two to three years.

Although Thyssen said this week that it knew that more than 25 per cent of its shareholders would reject the Krupp bid, some at least of the silent majority might want to see a faster restructuring of the group.

Mr Cromme's original plan of building support for a takeover bid which would be presented to Mr Vogel with a view to negotiations immediately ahead of the Easter holidays was shattered when news of the move leaked at the start of last week.

The rapid involvement of the North Rhine Westphalia government, which pressed immediately for a steel merger, muddied the waters further. Significantly, one of the signatories to the statement announcing that Krupp was dropping its bid for Thyssen was Mr Wolfgang Clement, the state's economics minister. The state is likely to stay involved with the future joint steel company.

The week's events have also prompted a spate of obituaries for the hostile takeover in Germany. But these could be premature, according to Mr Michael Treichl, an investment adviser to the Thyssen board, who sees a future for hostile bids that are solidly financed.

For Mr Rolf Breuer, chairman designate of Deutsche Bank, problems arose because Krupp's bid came to light before the preparations were ready. "If it had come to light in a timely way, there would have been less broken china," he said.

Peter Norman

The emotions aroused by Krupp Hoesch's abandoned attempt to take control of rival Thyssen spilled over into Germany's financial capital yesterday as more than 20,000 angry steelworkers invaded Frankfurt to protest (right) against the role of the banks, writes Andrew Fisher in Frankfurt.

They were addressed in front of Deutsche Bank, Germany's biggest bank, by Mr Klaus Zwickel, head of the powerful IG Metall trade union, who railed against what he called "casino capitalism". The fact that Krupp had dropped its controversial bid for Thyssen made no difference, he added. Jobs were still at stake.

The demonstration was sparked by the fact that Deutsche Bank and Dresdner Bank would have played a big role in financing a hostile bid by Krupp for the larger Thyssen.

With hostile takeovers virtually unknown in Germany and unemployment at record levels, the banks quickly found themselves on the receiving end of employee and trade union antagonism. The demonstration was peaceful. But the IG Metall banner above the podium – "people before profit" – made clear the banks were not among friends. Picture: Reuter

EUROPEAN NEWS DIGEST

Bezeq lifted by cellular growth

Bezeq, Israel's state-owned telecommunications network which is preparing for deregulation later this year, yesterday reported a 5.3 per cent rise in profits from Shk525.9m in 1995 to Shk553.7m ($195.8m) last year. It attributed the improvement to growth in cellular services. Earnings per share were above market expectations, reaching Shk0.90 in 1996 against Shk0.87 in 1995. Full-year revenues climbed from Shk7.9bn to Shk8.8bn.

The monopoly held by Bezeq in international telephone services will be broken this summer when two international and one Israeli consortia enter the market. It is still unclear when and how the government, which still holds a 75 per cent stake in Bezeq, will sell off a further 25 per cent. It said yesterday it would consider dividing the tranche between a domestic and international listing, largely because the Israeli market is too small to absorb the full offering. The offer could be made as early as June. *Judy Dempsey, Jerusalem*

'Difficult' year for BHF-Bank

Germany's BHF-Bank, which has been the subject of takeover speculation, yesterday announced a 5 per cent drop in operating profits to DM358m ($212m). Mr Ernst Michel Kruse, the new chairman, said 1996 was "an extremely difficult year". To enable the payment of an unchanged dividend of DM1.45 a share, the bank has drawn on reserves.

The bank's problems arose mainly from its stake of just under 50 per cent in Agiv, the industrial holding company, which failed to pay a dividend last year. The proposed sale of the Agiv stake to Metallgesellschaft for an estimated DM600m fell through in February. Mr Kruse said the dividend omission and write-downs caused by the fall in Agiv's share price knocked DM109m off BHF's profits. Also pulling down profits was a 73 per cent rise in risk provisions to DM185m, with increased funds set aside for potential loan losses more than offsetting profits on securities in the liquidity portfolio.
Andrew Fisher, Frankfurt

Ericsson in outsourcing deal

Ericsson, the Swedish telecommunications group, is to outsource the assembly of printed boards – a key component of telephone switching equipment – to SCI Systems and Solectron, two large US-based contract electronics suppliers. It said memoranda of understanding had been signed which would result in the bulk of Ericsson's printed board circuit production being transferred within two years.

The move follows a similar deal between Ericsson's Infocom Systems division and Flextronics, also of the US. It mirrors a shift among information technology companies to subcontract component production to specialist manufacturers. Ericsson said the decision would result in 700 job losses at its plants in Norrköping, near Stockholm. *Greg McIvor, Stockholm*

E. Merck advances 36%

E. Merck, the German pharmaceuticals and specialty chemicals group, yesterday said it expected further earnings growth this year – possibly in double-digit percentage points – after registering a 36 per cent rise in net profits to DM502m ($297m) in 1996. Revenues increased 10.9 per cent to DM6.95bn last year, fuelled by strong gains in its core pharmaceuticals business. The results beat market expectations and the shares rose 3.8 per cent to DM68.30. *Reuter, Frankfurt*

Italy's San Paolo ahead

Istituto Bancario San Paolo di Torino, Italy's largest banking group set to be privatised this year, yesterday reported a 36.4 per cent increase in consolidated net profits, from L442bn in 1995 to L603bn ($356.7m) last year. The bank said its return on equity had risen from 4.6 per cent to more than 6 per cent. It attributed the improvement to its bank's three-year strategic plan designed to boost profitability.

Brokerage income rose 9.4 per cent to L6,970bn, while interest income fell 1.9 per cent to L4,695bn. Net commission income rose 12 per cent to L1,245bn. The bank is increasing its dividend from L240 to L280.
Paul Betts, Milan

Four vie for hospitals group

Four candidates are left in the running to take over Générale de Santé, the private hospitals group being sold by Générale des Eaux, the French utility. They are understood to be Mayne Nickless, of Australia; Columbia, of the US; CinVen, of the UK; and BC Partner, an Anglo-French entity. Mr Jean-Marie Messier, Générale des Eaux president, said earlier this year he hoped to complete the sale by June. *David Owen, Lisbon*

CIC urges regional banks to sell stakes

By Andrew Jack in Paris

The new chairman of CIC, the French state-owned bank, yesterday called for outside investors to take stakes in the regional banks in its network, alongside a process of partial privatisation of the holding company.

Mr Philippe Pontet, whose predecessor, Mr Bernard Yoncourt, was sacked by the government late last year in a dispute over the sell-off, said opening the capital of the 11 regional banks in the CIC network would be "desirable".

However, he argued that there was no contradiction between this approach and his continued commitment – shared by the government – to proceed with the privatisation along the lines adopted last year.

He stressed that the sell-off was "interrupted" but "not suspended" by the government last November, after the privatisation commission ruled unacceptable the offer of Société Générale.

The only other candidate was Banque Nationale de Paris.

Mr Pontet said his board had drawn lessons from the experience, but believed the terms on which the sell-off was proposed remained the right ones: finding one majority shareholder, and maintaining its parent, GAN, the state-owned insurance group, with the second-largest stake.

He insisted it would make no sense to sell off separately subsidiaries or regional banks within the network, and argued that the joint accord with GAN for the sale of life and non-life insurance contracts should be preserved by the purchaser.

He said an investor in CIC should respect its regional structure, provide a real strategy and offer solid financial support, suggesting the need for a recapitalisation.

However, the government has no intention of providing such a recapitalisation before the sell-off.

Mr Pontet's comments came as he unveiled net income for 1996 up 36 per cent to FFr847m ($148.7m) after a 3 per cent rise in banking revenues to FFr17.1bn and an 11 per cent drop in new provisions to FFr2.3bn.

He said CIC was in good shape for a sell-off, and outlined new objectives. These included a plan to increase the number of individual clients by 16 per cent by 1999, accelerate back-office and computerisation programmes, increase non-life insurance sales and launch revolving credit card and phone banking services.

Mr Pontet criticised proposals which had been previously discussed by some of the 11 regional banks to buy CIC's shares and create a mutual bank, which he said was "seductive" as an idea but would only serve to absorb the network's capital and reduce its competitiveness.

CIC has in the past faced internal difficulties caused by the high degree of autonomy of the regional banks in its network and their chairmen, but he said yesterday that all of them were in agreement with the current privatisation strategy.

Ford suffers 'drastic setback' in Germany

By Ralph Atkins in Cologne

Ford-Werke, the German arm of the Ford Motor Company, yesterday announced fresh cost-cutting plans, including trimming workers' benefits, after unveiling a DM509.9m ($302m) pre-tax loss last year – compared with a DM510.3m profit in 1995.

Mr William Boddie, chief executive since last August, described the latest results as "a drastic setback". He blamed losses largely on a shift in sales away from profitable larger models towards smaller vehicles with lower margins.

Ford-Werke said it had failed to secure sufficient efficiency improvements to offset a DM400m increase in product costs and wage and salary expenditure. It was also hit by one-off costs, including compensation for early retirement.

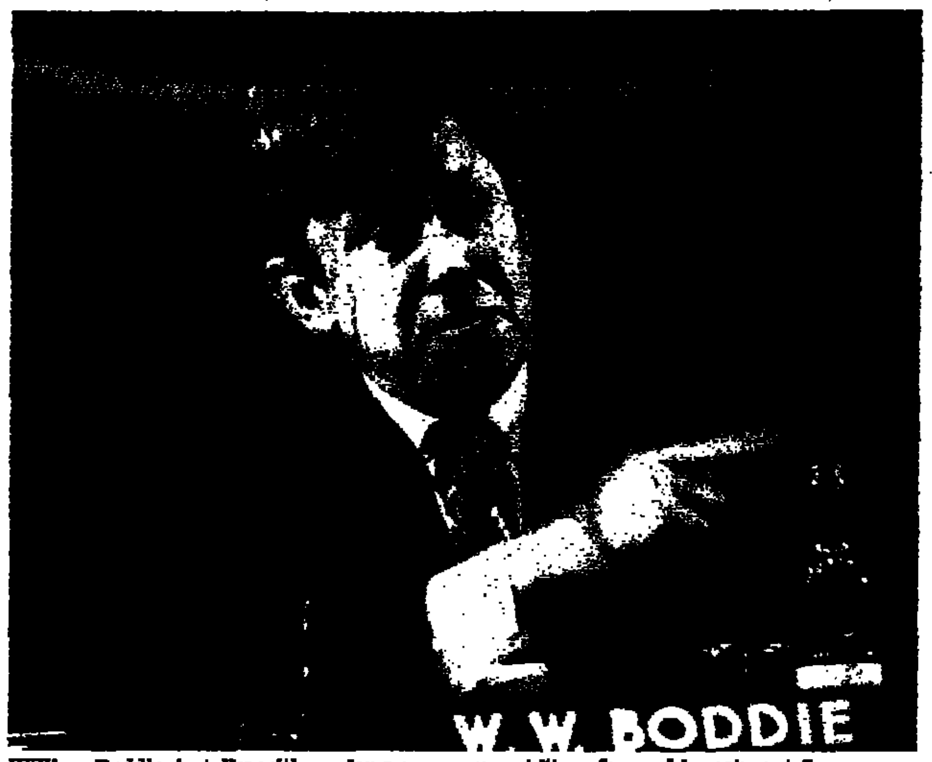
The headline after-tax figure fell from a profit of DM270.5m in 1995 to a DM551.6m loss last year.

Mr Boddie pledged to return Ford-Werke to profit as soon as possible, setting a target for cost reductions this year equivalent to 3 per cent of turnover. Ford Werke management has begun talks with workers on a new agreement "to safeguard investment", with the goal of preserving international competitiveness.

Mr Boddie said Ford-Werke still offered special benefit concessions above union rates "that we made, like other enterprises, in years of strong economic growth – and to which we should now bid farewell".

Turnover last year rose 6 per cent to DM26.4bn, of which two-thirds was from exports. Orders dropped in the last three months of 1996 but had developed "positively" more recently. At present it had an order bank of 40,000 vehicles and the trend was rising, Ford-Werke said.

Ford-Werke said slow growth across Europe and rising unemployment had affected decisively consumers' buying behaviour. The group's plans assume flat turnover this year.



William Boddie: in talks with workers on agreement "to safeguard investments" Picture: AP

Seat profit 'closes cycle in company's history'

By David White in Madrid

Seat, the Volkswagen group's Spanish carmaker, yesterday declared its crisis over, announcing a net profit of Pta5.34bn ($37.3m) for 1996 after four consecutive years in the red.

The result, helped by financial support from the German parent and aid from the Spanish government and regional authorities, was higher than the company had forecast, and compared with a loss of Pta11.29bn suffered the previous year.

Turnover rose by a third from Pta456.52bn to Pta607.31bn.

Mr Pierre-Alain De Smedt, who was moved at the end of last year from Volkswagen do Brasil to take over as chairman of the Spanish subsidiary, said the return to profit "closed a cycle in the company's history".

Losses at the Barcelona-based company, which soared to Pta151bn in 1993, raised doubts about its future as a separate brand within the Volkswagen group, which bought it from the Spanish government 11 years ago.

Its recovery followed a long wrangle with the European Commission over government support for the group, which ended with authorisation for a Pta46bn "one time, last time" restructuring package 18 months ago.

Mr De Smedt confirmed plans by the company to invest Pta120bn in new models by 2000 and emphasised that its future would be based on "the identity and specific character" of the Seat marque.

Operating results showed a reduced loss of Pta13.8bn compared with Pta17.9bn in 1995, and the company aimed to improve this figure this year by increasing sales revenues, curbing costs and reducing debts.

Output, including production of Volkswagen models by the Spanish company, rose 21 per cent to 416,000 units, the highest level since 1993, with a target of 460,000 set for this year.

Mr De Smedt said this represented a 50 per cent productivity improvement since 1993.

Sales of Seat vehicles to customers rose 6 per cent to 344,000, of which 69 per cent were exports.

New Seat registrations in Spain rose by more than 13 per cent to 106,000, well above the overall growth rate for the sector. With its Ibiza car ranking as the country's top-selling model, the company increased its market share from 10.5 to 10.9 per cent.

The first two months of this year showed an acceleration in the sales trend, with an 11.3 per cent increase over the same period last year. In Spain, sales rose by almost 21 per cent and in western European export markets by almost 12 per cent.

Seat's workforce, almost halved since 1992, stabilised last year with a 2.5 per cent increase to 12,900.

EUROPEAN NEWS DIGEST

Khazanah rescue of Fokker closer

Khazanah Holdings, Malaysia's powerful state investment arm, is moving closer to a deal to help rescue Fokker, the bankrupt Dutch aircraft maker. Khazanah executives were due to arrive in the Netherlands today, where they will make a final study of the company before deciding whether to take a stake. They plan to examine Fokker's audit books to gauge its prospective cash flow and costs, now that deep cuts have been made in the company's workforce.

Khazanah plans to take a 39 per cent stake but this could increase to 49 per cent if it takes up the 10 per cent which is tentatively earmarked for Mr Andre Delaye, a Belgian businessman who was instrumental in arranging the rescue package.

However, Stork, the main shareholder with the Dutch government, yesterday indicated it had little to gain from the rescue of Fokker. Stork took over four of the more viable Fokker subsidiaries last year and would have to hand back the largest, Fokker Services, to the new venture.

"It wasn't Stork's idea to include Fokker Services in the restart plan," said Mr Koos Huurdeman, spokesman for Stork. "[But] we have a contractual obligation to be constructive in restart negotiations."

James Kynge, Kuala Lumpur, Sander Thoenes, Amsterdam

AEX shares priced at Fl 3,100

Amsterdam Exchanges said yesterday its shares would sell for Fl 3,100 each, Fl 10m (US$5.6m) below the indicative price range set by the offers co-ordinator, ABN Amro Rothschild. An offering in the 50,000 B shares, which have a nominal value of Fl 1,000 each and represent half the exchange's equity, was three times oversubscribed.

Former members of the equities and options exchanges, which merged ahead of the share sale, will receive the other half, called A shares. AEX now owns the 25-share index of the same name and operates the Dutch trading floors for equities, bonds, options and futures. Amsterdam is only the second bourse to list its own stock, after Stockholm. Australia is preparing for a similar move and a UK parliamentary committee on treasury measures has urged the London Stock Exchange to follow suit.

Sander Thoenes

Bank IG share issue approved

Shareholders at Bank IG, the Polish bank, yesterday approved one of Poland's largest new share issues, to finance the bank's recent purchase of the Bank Gdanski. The new issue, with a market value of between 248m zlotys and 308m zlotys ($100m), is to be placed locally as well as abroad through Global Depositary Receipts (GDRs).

The purchase of 68 per cent of Bank Gdanski from the state treasury over the past 15 months has cost Bank IG group 413m zlotys, and given it a 5 per cent share in Poland's total banking sector assets. The purchase also meant that Bank IG's net profit dropped 9.8 per cent to 55m zlotys last year. *Christopher Bobinski, Warsaw*

FLS advances 68 per cent

FLS Industries, the leading international supplier of cement mills and machinery, increased pre-tax profits by 68 per cent from DKr566m in 1995 to DKr951m (US$148.6m) last year as sales at the Danish group advanced 7 per cent from DKr18.02bn to DKr19.48bn.

Hilary Barnes, Copenhagen

New World Development climbs 29%

By Louise Lucas in Hong Kong

New World Development, the Hong Kong-based property conglomerate, yesterday reported a 29.2 per cent rise in net profits for the first half to December 1996, from HK$1.7bn to HK$2.2bn (US$284m).

The previous year's figure was boosted by a HK$1.11bn exceptional gain from the spin-off of the group's infrastructure activities.

At the operating level before exceptionals, profits rose 77 per cent from HK$1.1bn to HK$1.96bn. In contrast to the previous year, the bulk of operating profit came from property development, which contributed HK$796.6m, more than three times its contribution in the first half of 1995-96.

Property investment accounted for 30.9 per cent of operating profits, compared with 44.4 per cent a year earlier. The division was helped by virtually full occupancies in its principal commercial properties.

The new hostel development on Hong Kong island enjoyed occupancy rates of 78 per cent, while buildings yet to be completed are already showing pre-leasing levels of 75-80 per cent.

Investments in China also started to pay off in the period. New World is one of the biggest foreign operators on the mainland, with investments of more than US$1bn.

In Hong Kong, New World Development has an agricultural land bank of some 15.7m sq ft across the New Territories – the more remote part of the Kowloon peninsula on which an increasing number of "new towns" are sprouting, masterminded by developers such as New World and Henderson Land.

On the hotels side, which contributed 29.3 per cent of operating profits, average occupancies were also high, although lower than a number of neighbouring hotels in the territory.

Healthiest occupancy rates were recorded by the New World Hotel, with 92.8 per cent, while the luxury Regent and Grand Hyatt, in which New World has stakes of 48 per cent and 64 per cent, respectively, saw occupancies of less than 80 per cent.

Earnings per share, on a fully diluted basis, rose 24.2 per cent in the period, from HK$0.99 to HK$1.23. The interim dividend is to be lifted from HK$0.30 to HK$0.32.

New World Infrastructure, the hived-off infrastructure arm, saw net profits rise 28 per cent in the six months, from HK$213.47m to HK$273.42m. Earnings per share at the division rose 9 per cent, from HK$0.33 to HK$0.36. As in the previous year, no interim dividend will be paid. The company now has a total of 22 projects, predominantly in the roads, bridges and cargo sectors.

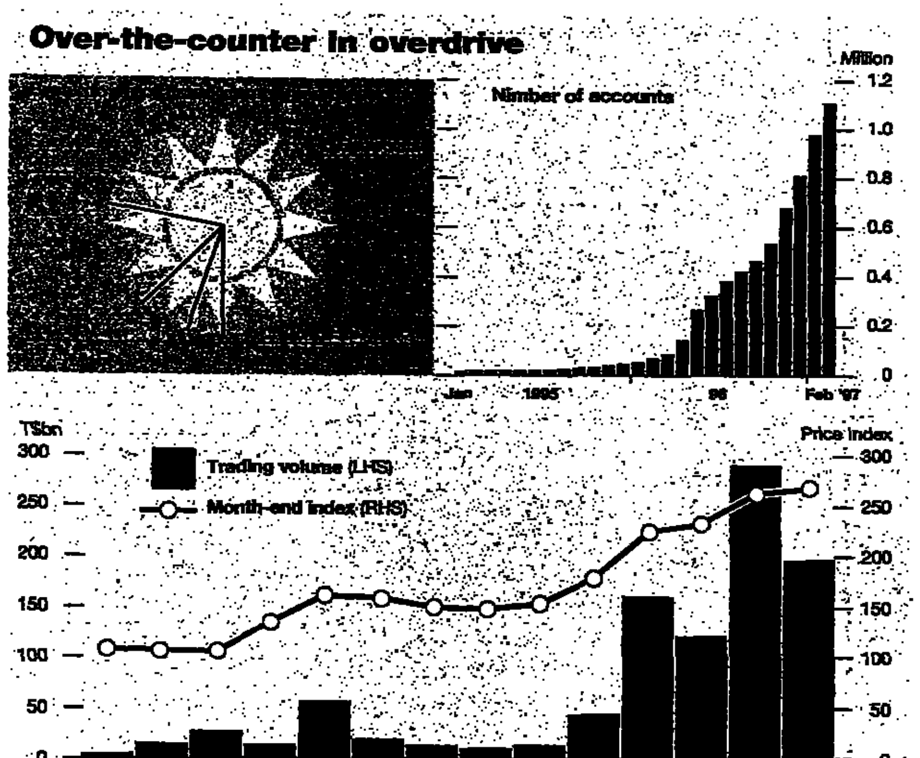
Taiwanese acquire taste for OTC

When Mr Chao Hsiao-feng took over at the helm of Taiwan's moribund over-the-counter securities exchange in late 1995, it had 11 listed companies and trading volume of only a few hundred thousand US dollars a day.

Now the rejuvenated exchange boasts 80 listed counters (10 others recently switched to the Taiwan Stock Exchange) and daily trade averaged US$430m during the first two months of this year.

Some 230 other companies have expressed interest in listing, and Mr Chao expects both listings and trading volume to double before 1998. "The potential for this market is huge," he says. "Not only are we attracting investment from seasoned share players, we are bringing first-time investors into the market."

Since Mr Chao's arrival, the number of trading accounts has rocketed from 30,000 to 1.1m in late February, and he expects that figure will surpass 1.5m by the end of this year.



It is too early to say whether Taiwan's OTC market will follow the pattern set by Nasdaq in the US and eclipse the main board, but it is certain that the fledgling market will in time prove a fierce competitor.

With a total market capitalisation of nearly US$38bn, the OTC is still dwarfed by the Taiwan Stock Exchange's US$332bn. But securities analysts say Taiwan is one of the few countries in the Asia-Pacific where a secondary exchange can thrive. The key ingredients are present: many small and medium-sized companies; a high savings rate; high liquidity levels; and the entrepreneurial nature of the Taiwanese.

The small and medium-sized companies the OTC wants to attract form the backbone of Taiwan's economy, accounting for 94 per cent of the country's enterprises. With its relatively relaxed listing requirements, the OTC provides a new avenue for them to raise capital cheaply. Taiwan's smaller companies have limited access to bank loans and are sometimes forced to turn to the underground lending market to finance day-to-day operations, at high rates of interest.

Mr Vaughn Chang, a Hong Kong-based fund manager for Jupiter Asset Management, says the immaturity of the OTC market offers rewards as well as risks. "It is not well-covered by securities analysts, so you have to make company visits, see the factory, see the products, get to know the management. There are opportunities for investors to find undervalued companies."

The market is currently overheated and consolidation is likely. Most sectors trade at a premium to the main board, except banks, which are at a discount. "We expect a correction in the next few months, which will be a good opportunity for fund managers to get back into the market," says Mr David Yu, vice-president at International Investment Trust, a Taiwanese investment concern.

IIT manages the Lucky Dragon Fund, a domestic open-end fund targeting the OTC. Launched in May 1996, the fund rose 61 per cent by the end of last year.

The term "over-the-counter" is actually a misnomer. Like the main board, the OTC trading system is fully computerised, and many of the rules such as the daily 7 per cent upper and lower limits are the same. The chief difference in regulation is that margin trading is not yet permitted on the OTC.

The OTC's index comprises all 80 stocks, just as the TSE index includes all 370 shares listed. Most of the companies listed – 40 per cent – are newly-established domestic banks and securities companies; another 30 per cent are high-technology companies. In coming years, there will be listings in new sectors, but competition for shares makes it difficult to buy into initial public offerings.

Some companies have 70 per cent of their shares locked in, leaving very little free float for retail investors. On the TSE, the free float is 50 per cent, double that of the OTC.

Through the efforts of Mr Chao, the OTC is seen as more friendly and less bureaucratic than the TSE. Not only are the listing requirements less demanding, but the application process is more straightforward. Nevertheless, the TSE is generally regarded as more prestigious, and many companies view an OTC listing as merely a stepping-stone to listing on the main board.

"At this stage, people still consider the TSE the better market, but I think it's just a matter of time before many companies prefer to list on the OTC," says Ms Sunny Chen, managing director of W.I. Carr's Taiwan branch.

Laura Tyson

SM Prime posts 27% advance

By Justin Marozzi in Manila

SM Prime, the Philippines' leading shopping mall operator, yesterday reported a 27 per cent rise in 1996 net profits to 1.91bn pesos ($72.5m).

The group, whose shares closed unchanged at 7.7 pesos yesterday, said it had benefited from increased purchasing power resulting from economic growth in the country. Earnings per share rose 27 per cent to 0.19 pesos.

Unlike its competitors, which usually rent mall outlets on a fixed fee per square metre, SM Prime is tied, in 80 per cent of cases, into a percentage of its tenants' gross revenues. Group sales grew 22 per cent to 3.8bn pesos.

The company plans to open two malls a year for the next five years, bringing the total by the end of this year to seven. It opens the Mall of Asia, which will be the world's largest, in 1999.

Analysts, who predict growth in profits of about 27 per cent for 1997, said there was some concern about oversupply in the sector.

"We think there is an overmalling situation in the Philippines and that a lot of new malls coming onstream will not be fully occupied," said Mr Tien Doe, of Deutsche Morgan Grenfell.

"SM Prime will continue to have high occupancy rates, however, due to management's expertise in structuring tenant mix and the accessibility of its malls."

ASIA-PACIFIC NEWS DIGEST

Talks over Optus dispute collapse

Lawyers for Seven Network, the Australian TV network, told a Sydney court yesterday that negotiations between Seven and other shareholders in the Optus Vision cable consortium over a possible out-of-court settlement to their legal dispute had "broken down".

The dispute is over a deal which gave Mr Kerry Packer's Publishing and Broadcasting group options to increase its stake in Optus Vision – a transaction which Seven maintains breached the Optus Vision shareholders' agreement.

Although the dispute appears highly legalistic, it has prompted Optus Communications, the Australian telecommunications group and the biggest shareholder in Optus Vision, to postpone an estimated A$4bn (US$3.14bn) stock market float. The fourth shareholder in Optus Vision is US West, the US telecoms group.

■ News Limited, the Australian arm of Mr Rupert Murdoch's News Corporation, and the **John Fairfax** newspaper group, yesterday agreed to become main sponsors of the Sydney Olympic Games in the year 2000.

As "team millennium Olympic partners", they become part of a select band of high-level sponsors, which includes the likes of BHP, Telstra, Westpac and Ansett. Each is required to provide at least A$25m in cash of product value. In return, News will have sole marketing rights to the Torch Relay programme, and Fairfax, to the Olympic Arts Festival. *Nikki Tait, Sydney*

Tokyu expects Y27.7bn loss

Tokyu, the Japanese railway operator and real estate developer, said it expected to post an extraordinary loss of Y27.7bn (US$225.5m) in the current financial year, arising from shareholdings in Mauna Lani Resort, a US subsidiary which develops real estate and operates hotels in Hawaii.

The company has been in financial difficulties since the Hawaiian property market collapsed in the late 1980s.

Tokyu plans to offset the loss with extraordinary gains from selling shares and property, in order to maintain its forecast parent company net profit at Y6.3bn for the year ending March 31.

Tokyu also revised downwards its sales estimate for the year, from Y299bn to Y292bn, but improved its forecast pre-tax profit from Y22bn to Y30bn.

Bethan Hutton, Tokyo

AOL to launch in Japan

America Online, the US-based information provider, is to launch its service in Japan from mid-April. Interest in the Internet has surged in Japan over the last two years, and some of AOL's competitors, such as Global Online, are already established in the market.

AOL's service, set up in partnership with Mitsui, the trading company, and Nihon Keizai Shimbun, the financial publishing group, will have a Japanese-language interface and Japanese-language content, including news from the Nikkei.

AOL will not be offering Japanese customers the fixed-price unlimited-access accounts which caused it embarrassing difficulties in the US last year. The Japanese service will cost Y980 (US$8) a month for up to three hours, and Y480 for additional hours, making it considerably more expensive for heavy Internet users than some of the existing access providers in Japan, which charge around Y25,000 a year for unlimited access.

Bethan Hutton

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

TrizecHahn agrees CN Tower project

By Scott Morrison in Vancouver

TrizecHahn Corporation has agreed to lease Canada's landmark CN Tower and develop a retail and entertainment complex on the adjoining land. Details of the deal have not been finalised, but it was believed to be worth about C$200m (US$145m).

The CN Tower deal follows several other retail development projects recently announced by the rapidly expanding Canadian company.

TrizecHahn signed an agreement last week to develop the 450,000 sq ft Aladdin Shopping Center in Las Vegas, Nevada. It also plans to begin construction this year on three other US shopping centres in Denver, Dallas and at a second Las Vegas location. The total project cost for the four centres is estimated at US$550m.

TrizecHahn said it intended to issue 12.5m new shares worth about US$275m to increase its capital "in light of numerous investment initiatives, as well as to increase the company's visibility and ownership, particularly in the US".

As of March 1997, the company has liquid assets of US$1.2bn for investment opportunities.

The 400,000 sq ft shopping centre planned for the base of the CN Tower, featuring speciality shops and theme restaurants, will be the company's first retail venture in Canada.

Miss Laurie Ludwick of TrizecHahn said the CN Tower project fitted in with the company's business plan to create "distinctive retail and entertainment centres that are enjoyable for shoppers".

Under the deal, the company would lease the tower for 35 years, with two 15-year renewal options, and build a retail shopping centre in the heart of Toronto. The transaction is expected to close within one month.

Other recent initiatives by the Toronto-based company include an agreement to acquire a 25 per cent stake in a new partnership that is buying the Citicorp Center and Seventh Market place in Los Angeles at a total cost of US$125m.

In a move that would increase its presence in Los Angeles, the company has proposed a US$145m makeover for a downtown portion of the city's famous Hollywood Boulevard.

TrizecHahn has also recently signed deals to develop retail and office space in Hungary, the Philippines and Taiwan. It is one of North America's largest public real estate companies, with office and regional shopping centres in the US, Canada and central Europe.

AMERICAS NEWS DIGEST

Acesita recovers in fourth quarter

Acesita, Brazil's biggest speciality steel maker, surprised analysts by publishing headline figures showing net profits last year of R$2.8m (US$2.64m) under corporate law and of R$18.6m when adjusted for inflation. Profits in 1995 were R$30.9m under corporate law and R$34.1m when adjusted for inflation. According to changes to Brazilian corporate law introduced at the end of 1995, companies must publish results without adjusting for inflation. They may also publish results under the previous, adjusted method, which analysts regard as a better reflection of performance.

Analysts had predicted losses for 1996 of R$15m-R$25m after losses of R$12m in the first three quarters. But non-operational items including changed accounting methods and asset sales helped produce fourth-quarter profits of R$31m. "Until we see the full balance sheet we can't tell how well Acesita did on the operational side, but it looks as though sales were about R$10m better than expected over the year," said Ms Isabela Saboya of Icatu, a Rio de Janeiro investment bank.

Acesita said it suffered from falling world prices for stainless steel, its biggest product, which were about 17 per cent lower than in 1995. It was also hit by higher raw material costs and falling domestic demand.

Analysts expect international prices to recover somewhat this year. Acesita should also benefit from the results of a four-year, R$550m investment plan designed to increase stainless steel capacity from 160,000 tons to 290,000 tons by 1998. *Jonathan Wheatley, São Paul*

Lloyds TSB in Brazil deal

Lloyds TSB, the UK banking group, announced yesterday it had agreed terms for the acquisition of the consumer banking division of its Brazilian associate, Banco Multiplic. The complex deal will lead to Lloyds giving up its 50 per cent share in Multiplic in return for 100 per cent control of Losango, the consumer finance business, and does not involve a cash consideration. MEC, the other 50 per cent shareholder, will own outright Multiplic's investment banking business.

The Losango name will continue to be used by Lloyds, while the investment banking operations will still trade under the Multiplic name. The agreement, which became public in February and which has still to be approved by the Brazilian central bank, is expected to be completed in September.

Lloyds said that as a result of greater political and economic stability in Brazil the consumer finance market was extremely attractive and the group would now have full control of one of the market leaders. Losango, which finances mainly white goods, has more than 5m customers and 40 branches. Lloyds, which has had its investment in Multiplic since 1979, has been in Brazil for more than 100 years and has a large commercial banking and corporate finance operation.

Mr Manoel Felix Cintra Neto, president of Multiplic, said recently that the reformed group would take six months to devise a new business plan. MEC is owned equally by Mr Antonio José de Almeida Carneiro and Mr Ronaldo Cesar Coelho. *Geoff Dyer, São Paul*

Moore sells Toppan stake

Moore, the Canada-based international business forms and information technology group, has sold its remaining 10 per cent stake in Toppan Moore of Japan for US$100m to its partner Toppan Printing of Tokyo. Toppan Moore has annual sales of more than US$1.2bn.

Moore reduced its stake from 45 per cent to 10 per cent in 1995. In all it has raised US$450m from the disposal. Toppan Moore will go public in Japan later this year.

Moore is expanding throughout Asia and has just signed a technology transfer pact with Japan's Kasei manufacturing group. *Robert Gibbens, Montre*

Marvel wins breathing space

A US Bankruptcy Court Judge granted a temporary restraining order that prevents a bondholder group, led by Mr Carl Icahn, from taking control of the board of directors of Marvel Entertainment, said officials representing bondholders and Marvel. "The court ruling means that Marvel and the banks are free to explore all options to protect the company's future," said a Marvel spokesman. He declined further comment.

Bondholders planned to replace Marvel's current board with their own slate of directors on March 25, after foreclosing on 80m Marvel shares which collateralise the bonds. *Reuter, New Yor*

Merrill pays Codelco $25m to settle claim

By Richard Waters in New York

Merrill Lynch has agreed to pay $25m to Codelco, the Chilean copper producer, to resolve accusations stemming from losses of $174m run up by a former trader at the state-owned company.

In a joint statement yesterday, though, both sides said that Codelco had not uncovered any evidence that Merrill employees made any "improper payments" to the trader, Mr Juan Pablo Dávila. There had been allegations that traders at several houses made payments to Mr Dávila to win business from Codelco.

Merrill said it had agreed to the settlement to put the matter behind it, rather than face long and potentially costly legal action.

The settlement comes more than three years after Mr Dávila confessed to having suffered the losses through unauthorised trading in commodities futures markets. At the time, the losses were among the biggest ever sustained in the commodity markets, though they have since been overshadowed by the massive copper trading losses of Mr Yasuo Hamanaka at Sumitomo Corporation.

Merrill said it might recover part of the $25m, depending on the outcome of Codelco's continuing legal actions against two other metals brokers. These are Sogemin, a London trading company owned by Union Minière, the Belgian metals group, and Metallgesellschaft, the German group.

Those cases have been filed in London, and stem from Mr Dávila's copper trading on the London Metals Exchange.

The Merrill employees involved in Mr Dávila's trading left the company some time ago, the US bank said.

Codelco had claimed that Merrill's traders had "facilitated [Mr Dávila's] unauthorised trading". For its part, the US investment bank blamed the Chilean company for failing to exercise "adequate supervision of copper futures trading by Dávila".

Merrill added that the payment to Codelco reflected a "practical business decision", designed to clear the air between the two sides and allow them to resume a more normal business relationship.

The two organisations said that Codelco's investigation "found no evidence that any improper payments were made to Dávila by or on behalf of Merrill Lynch, and further found that Merrill Lynch's policy prohibiting improper payments was applied in this matter".

Mr Dávila ran up the losses between September 1993 and January 1994.

Kraft Foods chief resigns

By Richard Tomkins in New York

Mr James Kilts, head of Philip Morris's Kraft Foods operation, has unexpectedly resigned with immediate effect after two years of overseeing an improvement in the food business.

Philip Morris said Mr Kilts had expressed a desire "to be more directly involved in managing a major business", but neither the company nor Mr Kilts said where he planned to go.

Mr Kilts, 49, had been with Philip Morris for 26 years. He was executive vice-president for worldwide food, overseeing both the domestic and international divisions of Kraft Foods.

No successor has been named: instead, Philip Morris said the heads of the domestic and international food businesses would report directly to Mr Geoffrey Bible, Philip Morris chief executive, for the time being, mirroring the management structure on the tobacco side of the business.

Although the food side of Philip Morris has been growing less quickly than the tobacco business, its performance has improved. Last year, North American operating profits rose 8.5 per cent to $2.6bn, and international operating profits were up 7 per cent to $1.3bn.

Torn between principle and profit

A culture clash is at the heart of the coup at 'folksy' advertiser Leo Burnett

Tradition runs deep at Leo Burnett, the Chicago Advertising agency. In the reception area of every company office around the world sits a bowl of red apples, a reminder of the day the business was founded on August 5 1935.

According to company lore, the receptionist of the original office brought in the apples on opening day to give away to clients. This prompted a sceptical local commentator to remark that Mr Burnett would soon be selling apples on the street corner rather than giving them away.

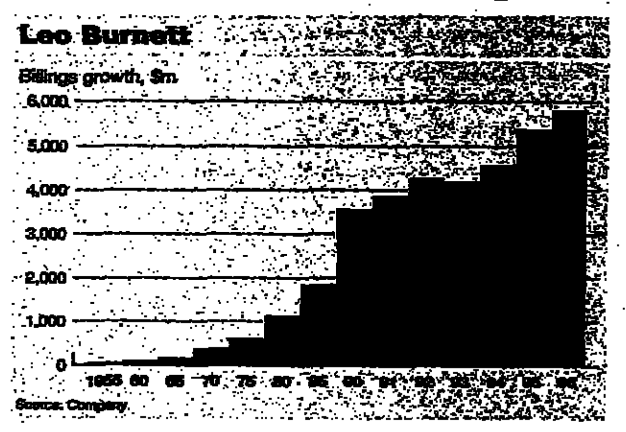
More than 60 years later, the agency is still there, ranking the world's 12th largest with billings of $5.8bn last year.

But it is going through possibly the worst turmoil in its long history, amid a conflict between the profit motive and its founder's guiding principles.

This climaxed in a palace coup on Friday when Mr William Lynch, chief executive, and Mr James Jenness, chief operating officer, suddenly resigned following an employee rebellion against their cost-cutting drive. Mr Lynch's place was taken by Mr Richard Fizdale, chairman, who had passed on the chief executive's post to Mr Lynch just four years earlier.

The late Leo Burnett, the company's founder, died aged 79 in 1971, but his spirit continues to exercise a powerful influence on employees.

His beliefs were summed up in a sentimental farewell speech known to insiders as



"When To Take My Name Off The Door".

In his speech, Mr Burnett said he would return from the next life to demand his name be taken off the door "the day when you spend more time trying to make money and less time making advertising – our kind of advertising".

Leo Burnett's kind of advertising is corny, homespun and folksy. The late Mr Burnett despised what he called "smart-aleckness" – the clever, the hip or the slick. Instead, the company produced some of the most durable icons in American advertising: the Marlboro Man, Tony the Tiger, the Jolly Green Giant and the Pillsbury Doughboy.

Conservatism paid off over the years. Leo Burnett, standing aloof from the wave of mergers affecting the rest of the industry, stayed resolutely independent and private, and concentrated on providing a relatively short list of top-notch blue chip clients with long-term, brand-building advertising.

Although the company was slow to expand internationally – a legacy of Mr Burnett's insistence on scrutinising every piece of work done – by the 1990s, it was on a roll. It had an excellent roster of high-quality, loyal clients, and its creative output was among the best in the world.


Leo Burnett: his spirit continues to influence employees

That was the view from the outside. But in an interview yesterday, Mr Fizdale said that in 1993, the year he handed the chief executive's post over to Mr Lynch, things were different within.

Financial controls were slack, to the extent that, in the US at least, "virtually anybody could spend the company's money pretty much on their own authority".

"There wasn't much process in place, and so we weren't retaining enough of our earnings," Mr Fizdale said.

"For a private company, that's crippling, because the only capital that we have for global expansion or for putting a computer on every desk comes from accumulated earnings."

Mr Lynch and Mr Jenness did an excellent job in putting that right, said Mr Fizdale: he declined to give figures, but said the company had never been in better financial shape.

However, the board felt the new controls were impinging on the agency's ability to serve its clients properly – an impression that was reinforced with the loss of some important clients, notably United Airlines.

Mr Fizdale said his aim as chief executive would be to strike a middle path between a company whose financ controls were too loose a one where the controls h become too restrictive to g things done.

Morale had slipped, sa Mr Fizdale, but was n irreparably damaged. think we just need to sen few signals to employe that our first priority is n our bottom line, but our c ents' bottom line. As a p vate company, we don't ha to post the kind of earnin that we have seen the p few years."

Mr Burnett's name, seems will remain on t door a little longer yet.

Richard Tomkii

Falling glass prices and over-capacity in Germany prompt further profits' downgrade

Pilkington's shares slide on warning

By Ross Tieman

Pilkington, the glassmaker, yesterday warned that profits this year would be below market expectations, prompting analysts to downgrade their forecasts for the third time in 12 months.

In a stock exchange announcement, the company said that because of falling glass prices and over-capacity, particularly in Germany, pre-tax profits for the year to March 31 would be "not less than £130m" before exceptional items. The shares fell 7½p to 121p.

Many brokers had already progressively cut their forecasts from about £250m, ahead of interim figures last August, to a range of £160m-£190m ($302m). Last year pre-tax profits were £212m.

The company blamed a "rapid and sustained" fall in European prices for float glass – used by the construction industry – during the first three months of 1997.

And in a statement that alarmed analysts, it said "sales volumes and prices of processed products have also been affected by the slow-down in construction activity during this period". Prices of automotive glass had also weakened. The impact would be compounded by the strength of sterling.

Mr Andrew Robb, finance director, said Pilkington was accelerating and extending its existing restructuring programme. As a result, ongoing restructuring costs would double to £20m a year for the next two years. A further one-off charge of £40m would be taken against the 1997 accounts, largely to cover related asset write-offs and business sales and closures. Total charges would be "not more than £55m".

Sir Nigel Rudd, chairman, described the forthcoming results as a "setback". But he remained convinced the management's strategy would deliver an appropriate return for shareholders. Many analysts were critical. One said the management's credibility was now "as solid as runny custard".

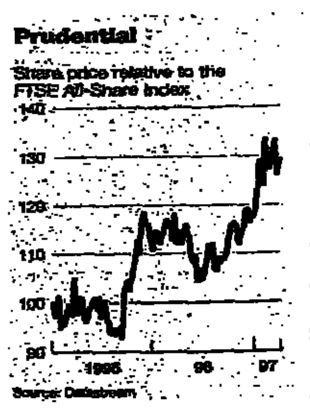
But despite the company's failure to anticipate price falls analysts agreed its managers have a very tough job in a cyclical industry plagued by high fixed costs.

Pilkington's German operations are among the group's biggest, accounting for annual sales of £800m. Mr Robb said that despite three attempts to raise prices for commodity glass last year, prices had declined from DM6.3 sq m to DM4.5 ($2.66) sq m. He blamed a surplus of float glass production capacity across Europe.

Lex, Page 22

LEX COMMENT

Pru/ScotAm



Here is a paradox: Prudential Corporation's shares jumped yesterday on news that it had won the auction for Scottish Amicable, while Abbey National's reacted just as enthusiastically to news that it had lost. That says something about investors' different attitudes to the two companies' acquisition ambitions. But it also suggests they risk getting the ScotAm saga a bit out of proportion. Pru shareholders, after all, are shelling out just £485m – a piffling sum for a group capitalised at more than £10bn. But at least it looks a sound investment. Policyholders will doubtless be gleeful – a £2.9bn deal sounds far more than the original Pru offer. But much of this is not the result of generosity on the Pru's part, just that the deal is differently structured and more capital can be liberated from the ScotAm life fund.

Pru shareholders are paying £485m where they previously offered £250m. But they are getting additional businesses, including the life fund's 25 per cent stake in J Rothschild Assurance, in exchange. Stripping out these, and the savings from pooling the fund management businesses, the Pru is paying a little over 10 times ScotAm's new business earnings.

For a deal which will usefully strengthen its position in the independent financial adviser market, that looks a perfectly respectable price. Given that the Pru could comfortably afford to gobble up another insurer, shareholders can be forgiven for greeting the fact that it has not overpaid.

Scotia moves to calm investors

By Daniel Green

Scotia, one of the UK's largest biotechnology companies, went some way towards rehabilitating itself with investors yesterday by announcing progress in clinical trials, a deal with a Japanese drugs company, and a turnround in the fortunes of its food supplements business.

However, it also revealed that Mr Jeff Bolly, its managing director for commercial operations, had been paid almost £500,000 ($795,000) for the seven months of 1996, making him one of the highest paid executives in the UK biotech sector.

Mr David Horrobin, chief executive, also said that projects in two research areas, heart disease and arthritis, were being suspended.

Mr Horrobin said Mr Bolly's salary, which included a "golden hello" of £250,000, was what was needed to recruit him from the pharmaceuticals industry.

Scotia shares rose 40p to 419p, but below last year's peak of more than 800p. They fell sharply this month when US authorities said they would not recommend approval for its diabetes drug Tarabetic.

Mr Horrobin insisted that the company did not need to raise new funds through a rights issue. He said non-core businesses might be sold or the intellectual property in them might be licensed out.

He added that Scotia had about £33m in cash and £15m of bank facilities. In the first quarter it was spending at an annualised rate of £27m. The recovery in the food supplements side, Efamol, would improve the balance sheet.

Sales last year rose to £16.5m from £15.6m, but this concealed Efamol's sharp recovery in the second half under new management. First quarter orders in 1997 were up 50 per cent. Scotia has also signed an agreement with a Japanese drugs company, Ajinomoto, to develop a diabetes drug.

Pru to double ScotAm pay-outs

By Christopher Brown-Humes

Prudential yesterday promised 1.1m Scottish Amicable policyholders higher-than-expected average windfalls worth £1,400 as part of its successful £3.87bn ($4.65bn) bid for the mutual life insurer.

The pay-out is double the amount proposed under its initial offer last month, and nearly five times more than the £300 Scottish Amicable might have given its policyholders under the demutualisation plans it announced in January.

Prudential, which beat off rival bids from Abbey National and Australian Mutual Provident, said it would distribute £1.57bn in cash and bonuses to policyholders while injecting £1.3bn into Scottish Amicable's life fund.

On completion, it will pay policyholders £600m in cash, an average of £550, and will add £470m to policies, a £430 average.

Analysts said Prudential was only committing £485m of shareholder funds, despite the deal's high headline value. The group has been able to lift its initial headline £1.9bn offer partly by revaluing the surplus in Scottish Amicable's life fund from £400m to £720m, partly by using more Prudential policyholder funds, and partly by lifting the value of the capital injection to £1.3bn from £1.1bn. It aims to get about £185m of synergy benefits.

Scottish Amicable said Prudential won the auction by promising higher immediate benefits to policyholders and because its financial strength offered security.

Sir Peter Davis, Prudential chief executive, said: "This strengthens our position in the IFA [independent financial adviser], extends our customer base, expands our product range, and consolidates our position as the number one UK fund manager." The group will have about £105bn of assets under management and more than 7m policyholders.


Brendan Corr

Looking ahead: Peter Davis, left, with Sandy Stewart, chairman of Scottish Amicable

Analysts say companies with big, strong life funds could replicate the Prudential structure in bidding for other mutual life groups. Companies with this strength would include Standard Life and Scottish Widows, among the mutuals, and Legal & General, Commercial Union and General Accident among the quoted groups. Prudential will guarantee 1500 jobs at Scottish Amicable's Craigforth head quarters near Stirling for three years. It added "constructive consideration" was being given to maintaining an investment management presence in Glasgow, where 150 Scottish Amicable staff are based.

Abbey National and AMP expressed disappointment, but indicated they would not appeal to adisputes panel. AMP said its search to buy another UK life insurer would continue.

Ferries leave P&O becalmed at £320m

By Ross Tieman

Lord Sterling, the chairman of the Peninsular and Oriental Steam Navigation Company, yesterday predicted an upturn in profitability this year and next because of restructuring launched during 1996.

Unveiling standstill underlying pre-tax profits of £320m ($500m) for 1996, Lord Sterling said underlying profitability was "set to improve sharply". But he warned that restructuring costs would hold back the improvement in 1997.

The biggest benefits are likely to come from merging the container shipping business with that of Koninklijke Nedlloyd Groep of the Netherlands, from January 1, and the planned merger of P&O's cross-channel ferry operations with those of Stena Line.

Lord Sterling said annual savings at the 50/50 container joint venture would exceed the £200m forecast. He remained confident the ferry merger would go ahead this summer, predicting annual savings of £75m.

Lord Sterling said P&O was "ahead on quite a lot of areas of our strategy".

Return on capital had improved from 11.1 per cent to 11.3 per cent, and gearing reduced from 82.5 per cent to 72.3 per cent.

But analysts said the group needed to move more quickly out of businesses with low returns.

The pressure for cost-cutting reflected a mixed performance from P&O's diverse portfolio of businesses.

The group's highly successful cruise operation lifted operating profits by £47.2m to £157.5m. It has ordered two new £200m ships, one for the US market, the other to be based in Southampton.

Three shipping operations operating in tough markets saw profits tumble. At P&O Ferries, which faced tough competition from the Channel tunnel, operating profits plunged £32.5m to £41m.

Operating profits at bulk shipping dived £18.4m to £1.1m. The group has since sold its tankships operation to James Fisher.

The container business, blighted by over-capacity and cut-price competition, saw operating profits fall £9.8m to £30.8m.

Lex, page 22

Housing arm behind Taylor Woodrow rise

By Andrew Taylor, Construction Correspondent

The new chief executive of Taylor Woodrow, the property and construction group, is to be Mr John Castle, former managing director of Marley, the building materials company.

Mr Castle, 52, is currently European president of Textron Fastening Systems, a subsidiary of Textron, the US conglomerate. He replaces Mr Tony Palmer, who is retiring after 43 years with the group, the last seven as chief executive.

His appointment is the latest management and organisational change at Taylor Woodrow, which has been substantially restructured since Mr Colin Parsons was appointed chairman in 1992. UK and international construction divisions have been merged and the group has withdrawn from uneconomic general UK building work.


John Castle: new chief

Taylor Woodrow, which announced the appointment yesterday, increased its pre-tax profits by 45 per cent last year to £66.8m ($106m), helped by mainly increased contributions from UK and US housing.

The commercial property division is selling part of its investment portfolio to develop higher yielding projects. UK housing profits outside central London, helped by a 30 per cent rise in sales volume, climbed 40 per cent to £7m (£5m). Profits from central London developments, where annual price rises of more than 50 per cent were achieved, rose fourfold to £4m.

US housing profits increased by more than two thirds to £12m, but Canadian profits were unchanged at £7m, while Australian profits halved to £1m.

Group net debt fell to £57.8m (£127.3m) reducing gearing to 10.7 per cent (24.7 per cent).

Supermarket link for Midland

By George Graham

Midland Bank and Wm Morrison Supermarkets yesterday teamed up in a financial services partnership that will place full scale Midland branches next to the wine and beer racks at Morrison stores.

A "Midland at Morrisons" savings account is expected to be launched this year.

Yesterday's deal reverses the recent trend in which supermarket chains such as J Sainsbury, Tesco and Safeway have taken the lead in offering financial products to their customers under their own brands and using traditional banks largely as service suppliers.

Midland, the UK subsidiary of HSBC Holdings, the international banking group, will keep control of the branding.

UK banks have been divided over the issue of supermarket banking. Banks with relatively small market shares, such as Bank of Scotland or Abbey National, have been happy to lend their financial expertise to supermarket groups. But bigger banks have been reluctant.

Banking kiosks in supermarkets have proved highly successful in the US, where banks such as Wells Fargo and Bank of America have successfully used the format both in their home market and as a way of expanding outside across state borders.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Allied London	6 mths to Dec 31	11.3□	(12.4□)	5.29	(4.18)	4.2	(2.9)	1.18	July 1	1.18	-	4
Arcolectric	Yr to Dec 31	13.8	(15.4)	0.603	(1.15)	8.65	(12.58)	0.802	May 19	0.802	1 617	1.47
Ash & Lacy	Yr to Dec 27	146.8	(104.1)	10.1	(5.32♠)	19.14	(12.24)	4.5	May 23	4.1	7.2	6.7
Baird (William)	Yr to Dec 31	667.2	(671.2)	6L♠	(10.3♠)	6.7L	(5.4)	5.8	July 3	5.8	9.35	9.35
Bardon	Yr to Dec 31	317.6	(340.8)	23.4	(24.3)	2.4	(2.5)	1.2	July 11	1.2	2	2
Booker	Yr to Dec 28	4,443	(4,223)	13♠	(82.8♠)	4.7L	(22.8)	15.7	July 1	15.2	23.8	23.1
Bostrom	Yr to Dec 31	80.4	(75.1)	5.85	(5.26)	24.4	(23)	4.1	June 6	3.9	7	6.6
Boxmore Intl	Yr to Dec 31	88.5	(71.9)	14.3	(11.1)	14	(11.75)	2.1	May 23	1.83*	3.01	2.64*
Bridport-Gundry	6 mths to Jan 31	15.8	(15.2)	0.66	(0.43)	3.15†	(2.63)	1.8	May 6	1.6	-	4.04
Burn Stewart	6 mths to Dec 31 ★	32.8	(22.2)	1.78	(0.885L)	2.03	(1.04L)	1.7	May 21	1.7	-	3.4
Capital Inds	Yr to Dec 31	86.7	(89.1)	6.31♠	(6.5♥)	12.9	(16.3)	3	May 28	2.7	5.7	5.2
Cattles	Yr to Dec 31	333.2	(294.3)	33.9	(28.2)	17	(14)	5.5	May 27	4.45	8.3	6.9
Chelsfield	Yr to Dec 31	34□	(32.9□)	14.4	(10.6)	5.8†	(6.1)	1.8	May 23	1.65	3	2.75
Chime Comms	Yr to Dec 31	33.7	(27.5)	3.72♥	(2.52)	4.5	(2.8)	1.15	June 26	0.96	1.7	1.42
Clubhaus	14 mths to Dec 31	7.32	(-)	1.49♥	(-)	3.6	(-)	-	-	-	-	-
Crean (James) ♣	Yr to Dec 31	304.2	(262.3)	14.6♠	(15♠)	20	(19)	9.0825	July 3	8.65	15.6188	14.875
FBD ♣	Yr to Dec 31	145.4	(136.6)	14.7	(14)	28.1	(26.6)	4.35	May 16	3.773	7.7	6.7375
Frogmore Estates	6 mths to Dec 31	99.1	(62.2)	11.7	(6.81♠)	15.6	(7.1)	4.3	Apr 25	4.1	-	19
Graystone	6 mths to Dec 31	45.1	(45.6)	4.5♥	(4.54♠)	7.87†	(7.96)	2.2	June 20	2.1#	-	6.4#
Hamleys	Yr to Feb 1	30.5	(30.1)	6.88♠	(6.38)	19.9	(19.3)	6	June 5	5.4	9	8.1
Hodder Headline	Yr to Dec 31	92.8	(88.8)	6.61	(5.7)	13.3	(13.1)	4.5	May 20	4.5	6.5	6.5
Holders Technology	Yr to Nov 30	7.47	(5.63)	0.603	(0.468)	10.95†	(9.97)	4.5	May 26	4	6.5	6
Hunting	Yr to Dec 31	1,282	(1,128)	6.8♠	(31.1)	15.4L	(12.1)	6	July 2	6	6	10
Independ't Radio ϕ	16 mths to Dec 31	2.26	(-)	2.99L♠	(-)	25.7L	(-)	-	-	-	-	-
Kier	6 mths to Dec 31	337.6	(291.3)	3.1	(2.75)	6.7†	(5.8)	-	-	-	-	-
Kingsbury	Yr to Dec 21	92.2	(78.3)	4.51	(3.24♠)	13.1†	(9.3)	2.5	May 16	2	3.75	3
Lendu	6 mths to Dec 31	0.411	(0.363)	0.262L	(0.129L♥)	1.71L	(0.77L)	-	-	-	-	0.4
London & Manchester	Yr to Dec 31	-	(-)	56.8♥	(57.1♥)	32.27	(29.33)	13.69	June 12	12.62	20.29	18.7
Macfarlane	Yr to Dec 31	157.1	(158.6)	20.4	(21.2)	11.38	(12.03)	2.625	May 29	2.5	4.095	3.9
McAlpine (Alfred)	Yr to Dec 31	593.6	(757.3)	9.44♠	(23.5L♠)	10†	(37.2L)	4	May 30	4	7	7
Meristem	Yr to Dec 31	30.1	(16.7)	3.63	(2.9)	9	(7.3)	1.4	May 30	1.2	2.1	1.8
New Ireland ♣	Yr to Dec 31	-	(-)	5.16	(10.4)	31.2	(55.9)	13.89	June 4	12.62	18.56	16.86
P&O	Yr to Dec 31	7,091	(6,571)	332.8♥	(320.4)	40.1	(37.8)	17	June 10	17	30.5	30.5
QSP	Yr to Dec 31	25.4	(21.4)	0.028♠	(0.503♠)	0.2	(5.2)	nil	-	1.5	nil	3
Rea Brothers	Yr to Dec 31	19.5■	(17.6■)	1.81	(1.34)	2.5	(2.08)	0.5	May 9	0.5	1	1
Roskel	Yr to Dec 31	67.7	(64.3)	2.06♠	(2.72)	6.54	(10.69)	3.3	July 1	3.3	4.6	4.6
Rutland Trust	Yr to Dec 31	116.4	(104.6)	12.2	(12.6♥)	3.91†	(3.49)	1	May 23	0.87	1.4	1.2
Scholl	Yr to Dec 31	211.9	(207.2)	15.1L♠	(17.1♠)	28.2L†	(13)	4.7	May 23	4.2	7.7	7
Scotia	Yr to Dec 31	16.5	(15.6)	19.1L♠	(11.8L)	25L†	(16.7L)	-	-	-	-	-
Scot Metropolitan	6 mths to Feb 15	10.2□	(10□)	4.9	(4.33)	3.08	(2.7)	1.2	Aug 18	1.1	-	2.75
SIG	Yr to Dec 31	556.9	(358.7)	30♠	(24.1)	16.1†	(20.3)	4.8	May 15	4.4	7.2	6.6
Silver Shield	6 mths to Nov 30	1.46	(0.63)	0.091	(0.031L♠)	0.0381	(0.0843L)	-	-	-	-	-
Singer & Friedlander	Yr to Dec 31	-	(-)	54.8♥	(34.9♥)	17.96	(10.35)	2.8	June 4	2.4	4.65	4
SkyePharma	17 mths to Dec 31☆	11.1	(7.59)	14.6L	(9.98L♠)	6.9L†	(13.8L)	-	-	-	-	-
Sun Life & Prov	Yr to Dec 31	2,481	(398.2)	136.3	(51.4)	18.8	(28.8)	6.78	May 23	-	6.78	-
Taylor Woodrow	Yr to Dec 31	1,189	(1,154)	66.8♥	(46♠)	12	(7.5)	2.75	July 1	2.25	3.75	3
Tibbett & Britten	Yr to Dec 31	713.2	(652.9)	23.8	(12.1)	35.8	(18.7)	12	May 30	11.2	17.2	16.2
Tudor	Yr to Dec 31	16.8	(16.5)	0.602	(0.258)	3.58	(2.22)	1.67	July 8	0.75	2	1
Vero	Yr to Dec 31	106.1	(97.2)	13.6	(8.11♠)	14.7†	(9.6)	3.8	May 28	-	5.8	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh Dragon	6 mths to Feb 28 ★	105.93	(115.27)	1.18L	(0.993L)	0.44L	(0.38L)	-	-	-	-	nil
Fleming Mercantile	Yr to Jan 31	425.2	(354.1)	16	(13.7)	10.98	(9.41)	3	May 1	2.35	8.7	7.6
HTR Japanese	6 mths to Jan 31 ★	71.47	(100.31)	0.393L	(0.348L)	0.39L	(0.35L)	-	-	-	-	nil
Prolific Income	6 mths to Jan 31	133.74	(116.37)	1.03	(1.25)	1.97	(2.41)	1.7	Apr 30	1.6	-	4.05
Scottish Oriental	6 mths to Feb 28	113.36	(-)	0.067	(0.042)	0.26†	(0.17)	-	-	-	-	0.46

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. □Net rental income. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. *Adjusted for scrip issue. ★Comparatives restated. ♣Irish currency. #Restated for share consolidation. ■Operating income. ϕAim stock. ☆Comparatives for 12 months to July 31 1995.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

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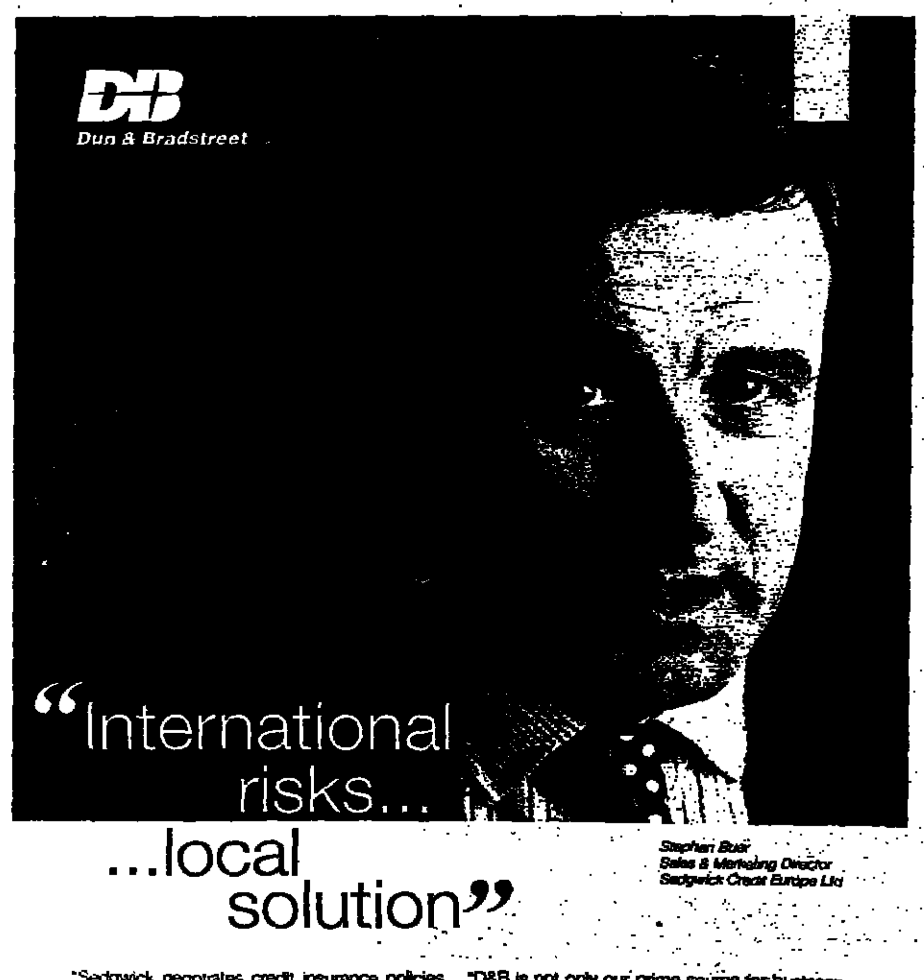


INTERNATIONAL CAPITAL MARKETS

Treasuries slip after rise in US rates

GOVERNMENT BONDS

By Lisa Bransten in New York and Samer Iskandar in London

US Treasury prices slipped yesterday after the Federal Reserve's open market committee moved to lift the federal funds rate by 25 basis points, to 5½ per cent.

At 2.30pm New York time, within 15 minutes of the announcement, the benchmark 30-year Treasury was off ¼ at 96 to yield 6.936 per cent, while at the short end of the maturity spectrum the two-year note lost 1/32 to 99¾, yielding 6.273 per cent.

Before the Fed's announcement the market had been modestly higher, especially at the long end, as some investors speculated that the Fed would not tighten.

The market initially moved higher after the tightening, but began falling as the text of the Fed's statement was released.

Some traders had driven the market higher in recent sessions on hopes that this widely-expected tightening would be a one-off event, but the Fed's statement was interpreted as a sign that there will be more interest rate increases, said Mr Richard Gilhooly, an international bond strategist at Paribas Capital Markets in New York.

Mr John Spinello, government securities strategist at Merrill Lynch, said: "I think the [text] probably hurt a bit but more important was the activity of the investors. As the market rallied after the announcement, they used it as a selling opportunity."

There was little reaction to the weak demand shown at the afternoon auction of two-year notes.

The ratio of bids offered to bids accepted was 2.20, well below the 2.56 average seen over the past five years.

The notes were awarded with a median yield of 6.24 per cent.

European bonds finished higher on the perception that a monetary tightening by the Fed was already priced into the market, but analysts warned that traders could still react negatively today or later this week.

They also said the markets had been oversold last week and that yesterday's buying had brought them back to a more neutral position.

"The markets are not looking for a 1994-style tightening," said Ms Sonja Gibbs, a senior bond strategist at Nomura International. "They are expecting two or three moves of 25 basis points each, a sort of fine-tuning." In 1994, a series of aggressive rate rises by the Fed led to a year-long bear market.

German bonds were supported by bullish consumer price data. In London the June bund future settled 0.34 higher at 100.47.

Consumer price inflation for March in three large German states showed rises of between 0.1 and 0.2 per cent, below expectations.

In the longer term, Nomura expects a divergence between European economies and the US. "Growth cycles could diverge," Ms Gibbs predicted, with growth slowing in the US while strengthening in the European core. "In this environment, Europe's peripheral markets should outperform."

Italian bonds outperformed bunds. The June BTP future closed at 125.21, up 0.71, on rumours that the forthcoming mini-budget, due to be released in coming days, will contain stronger measures than expected.

The future rose further in after-hours trading to a high of 125.34. In the cash market the 10-year yield spread of BTPs over bunds tightened by 9 basis points to 157 points.

Analysts said the mini-budget could contain savings of up to L20,000bn, as well as structural reforms on pensions and health. Fears of a softer mini-budget, with savings of only L15,000bn, had driven BTP prices down earlier this week.

"The Italian government is still stuck between a rock and a hard place," said Mr David Brown, chief international economist at Bear Stearns. "If the package lacks bite, the market will react badly. But if the measures are too tough, they will meet political opposition."

Ms Gibbs, at Nomura, said that based on economic fundamentals, the Bank of Italy had room to cut rates. However, she warned that this assumption hinged on two factors: a stable lira on the foreign exchange market and the absence of further market turbulence related to European monetary union.

Spanish bonds also showed a strong performance. In Barcelona the June bono future rose 0.53 to settle at 111.65, while in the cash market the 10-year benchmark bono gained 0.61 to 101.89, its yield spread over bunds narrowing by 4 basis points to 121 points.

French bonds again underperformed, with the 10-year yield spread of bunds over OATs tightening by 1 basis point to 9 points. At the end of last week, this spread stood at 13 basis points.

Ms Gibbs said that although the French market appeared to be resilient to a US rate rise, OATs remained vulnerable to tensions over Emu.

"There seems to be more internal opposition to Emu than is reflected in the market or in opinion polls," she said.

Severn River Crossing loan renegotiated

By Edward Luce

Severn River Crossing, a joint venture between John Laing and GTM Entrepose, yesterday renegotiated a £165m syndicated loan in the first refinancing to take place under the UK's private finance initiative.

Led by Bank of America, the 20-member banking syndicate agreed to cut the interest on Severn's debt from 135 basis points to 75 points over Libor. The syndicate also accepted a £7m prepayment and an £18m cancellation of the £190m originally borrowed in 1990.

SRC, which completed construction of the second bridge across the River Severn last June and will operate and maintain both bridges under the government's PFI scheme, is one of the largest private infrastructure projects in the UK.

Bankers said that yesterday's refinancing deal was likely to establish a benchmark for similar PFI deals.

"This is a landmark deal," said Mr Kit Bear, head of European project finance at the Bank of America. "It is the first time a PFI infrastructure deal has been refinanced and is likely to be seen as a benchmark for future refinancings."

The maturity of the refinanced loan is 9¼ years, amortising in semi-annual instalments. The syndicate was restricted to the original members owing to the reduction of the overall facility size. Bank of America took fees of 0.3 per cent while other syndicate members took 0.25 per cent.

Bankers say the completion of the construction of the second bridge, which cost about £370m to build, had significantly reduced the risks attached to the project.

SRC's next phase, which involves the maintenance and operation of both bridges until it has reached a revenue target agreed with the UK government, would involve a lower credit risk, syndicate officials said.

Market conditions had also improved from the borrower's point of view since the original terms were set in 1990, they said.

The bridges will be handed over to state ownership once SRC has arrived at the agreed revenue target.

Under most PFI – or build-operate-transfer – deals, the concessionaire is awarded a fixed mandate. For bridges, however, the concession date is variable to reflect the uncertainty of the income stream.

Bankers said it was difficult to finance variable concession projects with conventional bond issues. Borrowers would find it very difficult to persuade investors to refinance the issue to accommodate alterations in the risk environment.

"Bonds have much longer maturities than the normal time horizons of banks," Mr Bear said. "It is also very difficult to price a bond to reflect the changes in risk on an infrastructure project."

The project also took out a £150m loan from the European Investment Bank which was converted into letters of credit for the duration of the construction phase. This was to comply with rules deberring the EIB from exposure to construction risk.

Further wave of rand and peso offerings

INTERNATIONAL BONDS

By Edward Luce in London and Jeremy Grant in Hanoi

The emerging currency euromarkets were kept ticking over yesterday with another wave of South African rand and Philippine peso offerings for yield-hungry retail investors.

The World Bank opened up its 25-year eurorand offering for the third time with a R2bn tranche to take the total issue to R7bn.

Syndicate officials at J.P. Morgan, the lead manager, said the zero-coupon offering proved popular with Swiss and Italian investors. The bond was offered at 3.9 per cent of its nominal value. The initial tranche earlier this month was re-offered 3.76 per cent.

"The rand-denominated zero-coupon bond has really taken off among continental retail buyers," said a trader in London. "They're hoping for huge capital gains in 25 years' time in exchange for a very small outlay now."

The European Investment Bank's R100m five-year deal was also targeted at continental European retail investors. With a coupon of 14.67 per cent, it was priced a touch higher than the World Bank's recent five-year deal.

Officials at Hambros Bank, lead manager of the issue and the most prolific arranger in rand, said there was strong German and Swiss interest in the offering. Traders said the large supranational issuers continued to be driven by attractive swap rates from rand into dollars.

For perhaps similar reasons, the World Bank also reopened its recent europeso deal, increasing the total by 1bn to 4bn Philippine pesos. Officials at lead Deutsche Morgan Grenfell said the initial issue had tightened by some five basis points.

"There's been almost $350m worth of europesos issued in a very short space of time," said one official. "This is a rapidly expanding investor base." Singapore asset managers and Hong Kong buyers formed most of the demand yesterday.

● More than 90 per cent of Vietnam's commercial creditors have indicated their acceptance of proposals to settle $750m in London Club debt, bankers said.

The next step is to issue a Brady bond, scheduled for the end of June, in one of the last such settlements of emerging market debt.

That would pave the way for Vietnam's debut on the international capital markets. Ministry of finance officials are conducting due diligence on a planned $100m to $150m issue, for which Nomura Securities and Merrill Lynch received a mandate last year.

London Club creditors had until March 14 to decide between how to clear the arrears, mostly incurred in the 1970s. Most of the 120 creditors had chosen a fixed interest par bond. "Currently, there's some value stored up on these instruments," said one banker.

Vietnam was working on listing procedures for the bond and would shortly decide what size of cash downpayment it is prepared to make, according to Mr Nguyen Doan Hung, head of the central bank's foreign exchange department.

Most of the total owed is denominated in D-Marks. With the appreciation of the German currency against the dollar since last year, the dollar equivalent of Hanoi's debt has fallen to $750m from $900m.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
RAND							
European Investment Bank	100	14.625	101.71	Apr 2002	2.00		Hambros Bank
World Bank(a)	2bn	zero	3.90R	Apr 2022	2.125R		JP Morgan Securities
PHILIPPINE PESOS							
World Bank(b)	1bn	12.25	100.50R	Apr 2002	2.25R		Deutsche Morgan Grenfell
CZECH KORUNA							
Toyota Motor Credit Corp	1bn	11.00	99.95R	Apr 1998	0.15R		Dresdner-KB

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. R: Fixed re-offer price; fees shown at re-offer level. a) R5bn launched on 13/3/97 was increased to R7bn. b) 3bn pesos launched on 13/3/97 was increased to 4bn pesos.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	91.8260	+0.440	7.97	7.96	7.37
Austria		5.625	01/07	98.7200	+0.320	5.80	5.88	5.55
Belgium		6.250	03/07	101.9500	+0.470	5.98	6.04	5.60
Canada *		7.000	12/06	103.1300	+0.230	6.56	6.60	6.26
Denmark		8.000	03/06	108.8000	+0.240	6.67	6.72	6.18
France	BTAN	4.750	03/02	99.3750	–	4.85	4.76	4.34
	OAT	5.500	04/07	97.9500	+0.280	5.77	5.72	5.40
Germany Bund		6.000	01/07	101.0100	+0.380	5.86	5.91	5.56
Ireland		8.000	08/06	107.7600	+0.450	6.85	6.96	6.39
Italy		6.750	02/07	93.1200	+0.400	7.75†	7.80	7.13
Japan	No 143	6.300	09/01	120.3762	+0.210	1.55	1.32	1.37
	No 182	3.000	09/05	104.7576	+0.070	2.34	2.29	2.37
Netherlands		5.750	02/07	100.0600	+0.380	5.74	5.79	5.31
Portugal		9.500	02/06	116.4000	+0.300	6.99	7.11	6.61
Spain		7.350	03/07	101.8900	+0.610	7.07	7.23	6.68
Sweden		8.000	08/07	104.2037	+0.070	7.40	7.47	6.64
UK Gilts		7.000	06/02	98–26	+6/32	7.28	7.01	6.74
		7.250	12/07	97–25	+8/32	7.56	7.47	7.13
		9.000	10/08	110–10	+11/32	7.64	7.55	7.21
US Treasury *		6.250	02/07	96–28	+9/32	6.69	6.72	6.40
		6.625	02/27	96–16	+16/32	6.90	6.96	6.69
ECU (French Govt)		7.000	04/06	105.1800	+0.200	6.23	6.32	5.79

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.26
Prime rate	8¼	Two month	-	Three year	6.42
Broker loan rate	7	Three month	5.40	Five year	6.57
Fed.funds	5½	Six month	5.55	10-year	6.71
Fed.funds at intervention	-	One year	5.63	30-year	6.93

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	128.14	128.10	+0.24	128.26	128.06	70,531	158,576
Sep	126.50	126.50	+0.24	126.66	126.50	162	2,101
Dec	96.20	96.20	+0.24	96.20	96.20	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
127	0.97	1.37	1.70	0.11	0.51	0.84
128	0.24	0.76	1.11	0.38	0.89	1.25
129	0.02	0.37	0.67	1.16	1.50	1.80
130	0.01	0.13	0.36	2.15	2.27	2.49
131	-	0.04	0.18	3.14	3.17	3.31

Est. vol. total, Calls 22,076 Puts 26,831. Previous day's open int., Calls 162,900 Puts 162,590.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100.34	100.47	+0.34	100.54	100.28	125441	241400
Sep	99.47	99.54	+0.34	99.58	99.45	191	1512

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
10000	0.94	1.20	0.92	1.25	0.47	0.73	1.38	1.71
10050	0.64	0.90	0.71	1.03	0.67	0.93	1.67	1.99
10100	0.41	0.66	0.53	0.84	0.94	1.19	1.99	2.30

Est. vol. total, Calls 16430 Puts 12756. Previous day's open int., Calls 175880 Puts 200575

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	124.77	125.21	+0.71	125.34	124.38	46277	106176
Sep	124.80	125.26	+0.71	124.80	124.80	198	3110

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
12500	1.80	2.83	1.59	2.57
12550	1.51	2.56	1.80	2.80
12600	1.26	2.29	2.05	3.03

Est. vol. total, Calls 1804 Puts 13659. Previous day's open int., Calls 92574 Puts 98262

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	111.46	111.65	+0.52	111.73	111.33	49,090	76,532
Sep	–	110.31	–	–	–	–	–

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	110-02	109-27	-0-01	110-02	109-27	6811	21954
Jun	109-17	109-17	+0-07	109-21	109-09	51663	184460

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
109	1-13	1-40	1-51	2-19	0-43	1-06	1-45	2-13
110	0-43	1-07	1-22	1-53	1-09	1-37	2-16	2-47
111	0-23	0-45	0-62	1-28	1-53	2-11	2-56	3-22

Est. vol. total, Calls 1686 Puts 960. Previous day's open int., Calls 53624 Puts 25496

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	93.54	93.50	+0.18	93.54	93.42	1,482	5,022

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	109–01	109–07	+0–08	109–09	109–01	141,471	420,856
Sep	108–22	108–24	+0–07	108–26	108–22	1,770	28,680
Dec	–	108–04	–	–	–	200	5,293

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	125.30	-	-	125.43	125.26	1293	n/a
Sep	123.96	-	-	124.05	123.96	62	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Mar 25	Day's change %	Mon Mar 24	Accrued interest	xd adj. ytd		Low coupon yield Mar 25	Mar 24	Yr. ago	Medium coupon yield Mar 25	Mar 24	Yr. ago	High coupon yield Mar 25	Mar 24	Yr. ago
1 Up to 5 years (19)	119.53	0.08	119.44	1.87	3.40	5 yrs	7.32	7.35	7.51	7.38	7.41	7.54	7.42	7.45	7.64
2 5-15 years (20)	149.30	0.20	149.11	2.97	2.23	15 yrs	7.70	7.73	8.26	7.80	7.72	8.27	7.62	7.61	8.39
3 Over 15 years (7)	169.14	0.33	168.59	4.08	3.16	20 yrs	7.78	7.80	8.34	7.72	7.75	8.34	7.63	7.61	8.44
4 Irredeemables (5)	192.43	–0.23	193.11	3.21	2.37	Irred.†	7.90	7.87	8.39						
5 All stocks (51)	143.44	0.18	143.23	2.77	2.92										

Index-linked							Inflation 5% Mar 25	Mar 24	Yr. ago	Inflation 10% Mar 25	Mar 24	Yr. ago
6 Up to 5 years (2)	203.22	0.02	203.17	0.73	2.16	Up to 5 yrs	3.32	3.33	3.02	2.56	2.58	1.65
7 Over 5 years (10)	195.63	–0.03	195.69	1.34	1.81	Over 5 yrs	3.59	3.59	3.81	3.38	3.38	3.60
8 All stocks (12)	195.37	–0.02	195.41	1.27	1.83							

Average gross redemption yields are shown above. Coupon Bands: Low 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Mar 25	Mar 24	Mar 21	Mar 20	Mar 19	Yr ago	High*	Low*
Govt. Secs. (UK)	94.00	94.11	93.90	93.88	94.07	92.3	96.74	91.59
Fixed interest	117.65	117.69	117.88	118.05	118.10	110.86	120.18	110.74

Gilt Edged Activity Indices

	Mar 24	Mar 21	Mar 20	Mar 19	Mar 18
Gilt Edged bargains	NA	84.5	107.3	168.4	138.4
5-day average	NA	116.6	115.0	110.2	93.1

 * for 1996/97. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on March 25

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

'vern River
rossing loan
negotiated

CURRENCIES AND MONEY

Dollar steady on US rate rise

MARKETS REPORT

By Emiko Terazono

The dollar remained steady following the decision to raise US rates by 25 basis points yesterday, and was trading almost unchanged from its London close immediately after the announcement by the US Federal Reserve.

Ahead of the US Federal Open Market Committee policy making meeting, the dollar remained firm on technical activity. It closed up Y1.1 against the yen in London at Y123.9 and 0.3 pfennigs against the D-Mark at DM1.691. Hedge funds sold the yen aggressively against the D-Mark, triggering yen selling against sterling. The D-Mark closed Y0.56 against yen to Y73.29 while the pound finished Y2.7 higher at Y200.6.

The yen was also hit by a decline in Japanese short term interest rates. The Bank of Japan's accommodative stance in its daily money market operations reconfirmed expectations of low interest rates in the foreseeable future as did comments by a leading Japanese banker.

Traders are concerned about extra volatility over the next few days due to the Easter holiday weekend and the end of the Japanese fiscal year. The increase in technical activity amid low trading volumes is likely to boost price volatility. "Our primary concern is a liquidity problem," said Mr Michael Wallace, senior currency economist at MMS International, adding that the pound and the dollar which have gained on hopes of higher interest rates could see some profit taking.

Nervousness that higher rates in the US could lead to rate increases in Europe affected Swiss short term rates. Short term deposit rates edged up to the 2 per cent level on comments by German officials over a possible US interest rate increase earlier in the week. However, the Swiss central bank has expressed its resolve to counter factors which would hamper an economic recovery, and analysts expect the phenomenon to be temporary.

■ The Italian lira closed unchanged at L1001 after a volatile day. Comments by Mr Lamberto Dini, the Italian foreign minister, that he would have preferred to see the launch of European monetary union put back by a year pressured the lira, although he added that it was impossible for Italy to backtrack at this point. Reports that the IMF's draft forecasts for Italy's budget deficit came to four per cent of GDP in 1997 also added to the pessimism. An Italian financial daily said that the country needed extra budget deficit cutting measures worth L20,000bn this year if it wanted to reach the three per cent deficit to GDP ratio required to join Emu.

Strategists said comments by politicians were unnerving investors. "The clever course for Italy is to say nothing. The problem is that the more the politicians try to calm the markets, the more the markets are perturbed," said Mr Mark Fox, chief European strategist at Lehman Brothers in London. The government is expected to announce its mini-budget with up to L16,000bn in budget cutting measures later this week, and may choose to release it on Friday since its financial markets are scheduled to remain open.

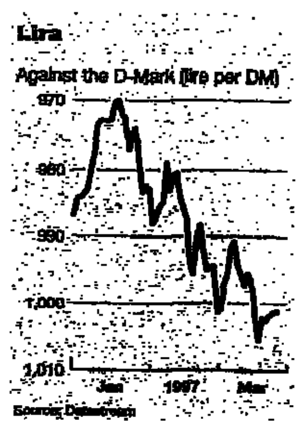
■ Concerns over Emu and the Swedish government's budget weighed on the krona. A flurry of selling sent the currency lower against the D-Mark although the currency finally closed down SKr0.007 at SKr4.513.

The Norwegian krone saw support from investment bank buying yesterday, rising NKr0.034 against the D-Mark to NKr3.946. While some analysts see the krone undervalued, there are worries of an overheating economy and the central bank's continued priority to focus on currency stability over inflation. Last week's first quarter inflation report highlighted the risk of rising price pressures due to a tightening labour market and higher capacity.

The krone has appreciated by 5 per cent since the start of the year on the back of its strong economic growth. However, there are some fears of an inflationary boom and a subsequent bust if the central bank does not increase its rates, said Mr Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell.

Lira

Against the D-Mark (lire per DM)



Source: Datastream

■ Pound in New York

Mar 25	—Latest—	— Prev. close —
£ spot	1.6170	1.6195
1 mth	1.6163	1.6189
3 mth	1.6146	1.6186
1 yr	1.6060	1.6089

■ OTHER CURRENCIES

Mar 25	£	$
Czech Rp	47.2942 - 47.3817	29.2210 - 29.2570
Hungary	286.264 - 286.506	176.870 - 176.910
Iran	4858.50 - 4855.50	3000.00 - 3000.00
Kuwait	0.4909 - 0.4920	0.3033 - 0.3038
Poland	4.9842 - 4.9921	3.0795 - 3.0825
Russia	9258.44 - 9288.40	5721.00 - 5723.00
U.A.E.	5.9399 - 5.9484	3.6700 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Mar 25		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.2648	+0.1068	545 - 751	19.2777	19.1695	19.2213	2.7	19.1648	2.1	-	-	103.9
Belgium	(BFr)	56.5031	+0.3325	533 - 529	56.5530	56.2140	56.3781	2.7	56.1181	2.7	54.7931	3.0	103.7
Denmark	(DKr)	10.4329	+0.0585	280 - 377	10.4385	10.3835	10.4109	2.5	10.3674	2.5	10.1574	2.6	106.1
Finland	(FM)	8.1645	+0.0368	559 - 731	8.1860	8.1390	-	-	-	-	-	-	83.7
France	(FFr)	9.2291	+0.0471	250 - 331	9.2335	9.1860	9.207	2.9	9.1633	2.9	8.9462	3.1	106.8
Germany	(DM)	2.7372	+0.0155	358 - 386	2.7392	2.7232	2.7306	2.9	2.717	2.9	2.6503	3.2	105.5
Greece	(Dr)	430.600	+1.928	392 - 208	431.350	428.724	-	-	-	-	-	-	66.5
Ireland	(I£)	1.0288	+0.004	281 - 294	1.0297	1.0253	1.0285	0.3	1.0276	0.5	1.021	0.8	102.8
Italy	(L)	2740.40	+15.42	899 - 181	2742.00	2724.58	2743.8	-1.5	2748.65	-1.2	2751.45	-0.4	75.6
Luxembourg	(LFr)	56.5031	+0.3325	533 - 529	56.5530	56.2140	56.3781	2.7	56.1181	2.7	54.7931	3.0	103.7
Netherlands	(Fl)	3.0778	+0.0175	758 - 793	3.0793	3.0600	3.0686	3.2	3.0537	3.1	2.9782	3.2	103.4
Norway	(NKr)	10.8017	+0.0273	967 - 066	10.8738	10.7762	10.7772	2.7	10.7287	2.7	10.5092	2.8	104.4
Portugal	(Es)	275.408	+1.8	242 - 574	275.579	274.084	275.548	-0.6	275.833	-0.6	-	-	94.7
Spain	(Pta)	232.829	+1.332	417 - 641	232.700	231.190	232.882	-0.7	232.629	0.0	231.054	0.6	77.9
Sweden	(SKr)	12.4024	+0.0634	925 - 123	12.4150	12.3100	12.3834	1.8	12.3439	1.9	12.1478	2.1	83.8
Switzerland	(SFr)	2.3731	+0.023	719 - 742	2.3742	2.3527	2.3643	4.5	2.3464	4.5	2.2622	4.7	102.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	98.0
Ecu	-	1.4069	+0.0063	060 - 097	1.4099	1.4022	1.4057	1.9	1.402	2.0	1.3789	2.3	-
SDR†	-	1.18757	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6186	+0.0059	183 - 193	1.6208	1.6146	-	-	-	-	-	-	-
Brazil	(R$)	1.7179	+0.0067	172 - 186	1.7199	1.7133	-	-	-	-	-	-	-
Canada	(C$)	2.2300	+0.0113	286 - 320	2.2325	2.2239	2.225	3.1	2.2143	3.0	2.1697	2.7	85.0
Mexico	(New Peso)	12.7612	+0.0525	732 - 892	12.7679	12.7446	-	-	-	-	-	-	-
USA	($)	1.6190	+0.0068	185 - 195	1.6211	1.6149	1.6184	0.4	1.6166	0.6	1.6082	0.7	101.5
Pacific/Middle East/Africa													
Australia	(A$)	2.0691	+0.0215	678 - 704	2.0741	2.0462	2.069	0.1	2.0682	0.2	2.0641	0.2	98.1
Hong Kong	(HK$)	12.5452	+0.0538	405 - 498	12.5606	12.5138	12.5405	0.4	12.5296	0.5	12.4894	0.4	-
India	(Rs)	58.0617	+0.2579	232 - 401	58.1650	57.8750	-	-	-	-	-	-	-
Israel	(Shk)	5.4496	+0.0261	430 - 561	5.4582	5.4359	-	-	-	-	-	-	-
Japan	(Y)	200.586	+2.59	484 - 688	200.990	198.740	199.616	5.8	197.756	5.6	189.146	5.7	122.1
Malaysia	(M$)	4.0119	+0.0165	098 - 139	4.0155	4.0023	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3273	+0.0116	254 - 292	2.3305	2.3162	2.3302	-1.5	2.3353	-1.4	2.3556	-1.2	115.8
Philippines	(Peso)	42.6688	+0.1983	151 - 224	42.7220	42.5318	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0722	+0.0256	700 - 743	6.0799	6.0574	-	-	-	-	-	-	-
Singapore	(S$)	2.3346	+0.0147	331 - 361	2.3370	2.3242	-	-	-	-	-	-	-
South Africa	(R)	7.1479	+0.0085	432 - 525	7.1765	7.1320	-	-	-	-	-	-	-
South Korea	(Won)	1439.29	+7.7	561 - 297	1443.00	1435.48	-	-	-	-	-	-	-
Taiwan	(T$)	44.6359	+0.0922	897 - 820	44.7199	44.5228	-	-	-	-	-	-	-
Thailand	(Bt)	42.0697	+0.2102	486 - 908	42.1160	41.9850	-	-	-	-	-	-	-

† Rates for Mar 24. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	11.8992	+0.0169	965 - 019	11.9020	11.8550	11.8845	1.5	11.8392	2.0	11.6442	2.1	103.7
Belgium	(BFr)	34.9000	+0.058	800 - 200	34.9200	34.7670	34.84	2.1	34.7125	2.1	34.1725	2.1	103.8
Denmark	(DKr)	6.4440	+0.0089	430 - 450	6.4462	6.4218	6.4351	1.7	6.4167	1.7	6.335	1.7	105.6
Finland	(FM)	5.0430	+0.0015	392 - 467	5.0568	5.0314	5.0342	2.1	5.0155	2.2	4.933	2.2	93.0
France	(FFr)	5.7005	+0.005	997 - 012	5.7053	5.6815	5.6898	2.3	5.6688	2.2	5.5605	2.5	106.3
Germany	(DM)	1.6907	+0.0025	903 - 910	1.6913	1.6844	1.6875	2.3	1.681	2.3	1.6473	2.8	105.2
Greece	(Dr)	266.090	+0.065	920 - 260	266.470	265.180	267.645	-7.0	270.215	-8.2	281.24	-5.7	66.1
Ireland	(I£)	1.5737	+0.0004	732 - 742	1.5792	1.5720	1.5733	0.3	1.5727	0.3	1.574	0.0	-
Italy	(L)	1692.65	+2.37	230 - 300	1693.20	1684.65	1695.65	-2.1	1700.5	-1.9	1710.3	-1.0	75.4
Luxembourg	(LFr)	34.9000	+0.058	800 - 200	34.9200	34.7670	34.84	2.1	34.7125	2.1	34.1725	2.1	103.8
Netherlands	(Fl)	1.9014	+0.0028	004 - 014	1.9014	1.8930	1.8971	2.4	1.8891	2.5	1.8536	2.5	103.3
Norway	(NKr)	6.6718	+0.0432	708 - 728	6.7205	6.6540	6.6681	0.7	6.6624	0.6	6.6368	0.5	103.0
Portugal	(Es)	170.110	+0.27	060 - 160	170.180	169.500	170.24	-0.9	170.39	-0.7	170.125	0.0	95.2
Spain	(Pta)	143.825	+0.34	800 - 850	143.850	142.990	143.715	-0.8	143.835	-0.6	143.63	0.0	77.7
Sweden	(SKr)	7.6606	+0.0254	568 - 643	7.6662	7.6139	7.6578	0.4	7.6479	0.7	7.6005	0.8	83.7
Switzerland	(SFr)	1.4658	+0.0081	655 - 660	1.4665	1.4548	1.461	3.9	1.4490	4.1	1.4016	4.1	102.9
UK	(£)	1.6190	+0.0068	185 - 195	1.6211	1.6149	1.6184	0.4	1.6166	0.6	1.6082	0.7	97.4
Ecu	-	1.1492	-0.0003	488 - 495	1.1527	1.1465	1.1503	-1.2	1.1529	-1.3	1.1682	-1.6	-
SDR†	-	0.72426	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0001	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0611	-0.0004	610 - 612	1.0613	1.0603	-	-	-	-	-	-	-
Canada	(C$)	1.3780	+0.0013	777 - 782	1.3786	1.3758	1.3751	2.5	1.3699	2.4	1.3485	2.1	84.9
Mexico	(New Peso)	7.8945	-0.001	920 - 970	7.8970	7.8920	8.0125	-17.8	8.276	-18.5	9.1385	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	104.8
Pacific/Middle East/Africa													
Australia	(A$)	1.2780	+0.0079	776 - 784	1.2794	1.2671	1.2787	-0.7	1.2795	-0.5	1.2848	-0.5	100.4
Hong Kong	(HK$)	7.7487	+0.0004	482 - 492	7.7495	7.7480	7.7486	0.0	7.7492	0.0	7.7602	-0.1	-
India	(Rs)	35.8750	+0.0075	500 - 000	35.9200	35.8470	36.09	-7.2	36.55	-7.5	-	-	-
Israel	(Shk)	3.3660	+0.0018	630 - 690	3.3695	3.3625	-	-	-	-	-	-	-
Japan	(Y)	123.895	+1.08	870 - 920	124.130	122.890	123.36	5.2	122.335	5.0	117.535	5.1	123.9
Malaysia	(M$)	2.4780	-0.0003	775 - 785	2.4790	2.4765	2.4809	-1.4	2.4863	-1.3	2.5075	-1.2	-
New Zealand	(NZ$)	1.4375	+0.001	368 - 382	1.4395	1.4306	1.4398	-1.9	1.4441	-1.8	1.4646	-1.9	-
Philippines	(Peso)	26.3550	+0.011	300 - 800	26.3800	26.3300	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	504 - 507	3.7508	3.7504	3.7508	-0.1	3.7513	-0.1	3.7532	-0.1	-
Singapore	(S$)	1.4420	+0.003	415 - 425	1.4425	1.4388	1.4398	1.8	1.4352	1.9	1.414	1.9	-
South Africa	(R)	4.4150	-0.0135	135 - 165	4.4310	4.4120	4.4507	-11.1	4.5307	-10.5	4.8456	-8.8	-
South Korea	(Won)	889.000	+1	000 - 000	891.000	886.700	-	-	-	-	-	-	-
Taiwan	(T$)	27.5700	-0.06	500 - 900	27.6220	27.5450	27.5701	-0.0	27.5703	0.0	-	-	-
Thailand	(Bt)	25.9850	+0.02	800 - 900	25.9900	25.9600	26.075	-4.2	26.3425	-4.0	26.88	-3.4	-

† SDR rate per $ for Mar 24. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 24: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 25		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.33	4.844	1.821	4850	5.448	19.12	487.4	411.5	21.95	4.200	1.770	3.949	2.865	355.0	2.494
Denmark	(DKr)	54.17	10	8.849	2.624	0.987	2627	2.951	10.35	264.0	222.9	11.89	2.275	0.959	2.139	1.552	192.3	1.351
France	(FFr)	61.22	11.30	10	2.966	1.115	2969	3.335	11.70	298.4	251.9	13.44	2.571	1.084	2.417	1.754	217.4	1.527
Germany	(DM)	20.64	3.811	3.372	1	0.376	1001	1.125	3.946	100.6	84.95	4.531	0.867	0.365	0.815	0.592	73.29	0.515
Ireland	(I£)	54.91	10.14	8.968	2.660	1	2663	2.991	10.50	267.6	225.9	12.05	2.306	0.972	2.168	1.573	194.9	1.369
Italy	(L)	2.062	0.381	0.337	0.100	0.038	100.	0.112	0.394	10.05	8.485	0.453	0.087	0.036	0.081	0.059	7.321	0.051
Netherlands	(Fl)	18.36	3.389	2.999	0.889	0.334	890.2	1	3.509	89.47	75.54	4.029	0.771	0.325	0.725	0.526	65.17	0.458
Norway	(NKr)	52.31	9.657	8.545	2.534	0.953	2537	2.850	10	255.0	215.3	11.48	2.197	0.926	2.066	1.499	185.7	1.305
Portugal	(Es)	20.52	3.787	3.351	0.994	0.374	994.9	1.118	3.922	100.	84.42	4.503	0.862	0.363	0.810	0.588	72.84	0.512
Spain	(Pta)	24.30	4.486	3.969	1.177	0.443	1178	1.324	4.645	118.5	100.	5.333	1.021	0.430	0.960	0.696	86.28	0.606
Sweden	(SKr)	45.56	8.411	7.443	2.207	0.830	2210	2.482	8.710	222.1	187.5	10	1.914	0.806	1.799	1.306	161.8	1.136
Switzerland	(SFr)	23.81	4.395	3.889	1.153	0.434	1155	1.297	4.551	116.1	97.98	5.225	1	0.421	0.940	0.682	84.53	0.594
UK	(£)	56.50	10.43	9.229	2.737	1.029	2740	3.078	10.80	275.4	232.5	12.40	2.373	1	2.231	1.619	200.6	1.409
Canada	(C$)	25.32	4.675	4.137	1.227	0.461	1228	1.380	4.841	123.4	104.2	5.558	1.064	0.448	1	0.726	89.91	0.632
US	($)	34.90	6.442	5.700	1.691	0.636	1692	1.901	6.671	170.1	143.6	7.659	1.466	0.618	1.378	1	123.9	0.870
Japan	(Y)	28.17	5.199	4.601	1.364	0.513	1365	1.534	5.384	137.3	115.9	6.181	1.183	0.499	1.112	0.807	100.	0.702
Ecu		40.10	7.402	6.550	1.943	0.730	1945	2.185	7.665	195.5	165.0	8.801	1.684	0.710	1.583	1.149	142.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5956	0.5965	+0.0005	0.5968	0.5946	9,161	59,307
Sep	0.6006	0.5999	-	0.6006	0.5999	18	2,505
Dec	-	0.6038	-	-	-	2	135

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6913	0.6921	+0.0004	0.6934	0.6902	8,919	36,932
Sep	0.6990	0.6985	-0.0002	0.6990	0.6985	19	2,068
Dec	-	0.7059	-	-	-	1	259

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8232	0.8191	-0.0045	0.8249	0.8183	7,482	64,135
Sep	0.8302	0.8304	-0.0043	0.8304	0.8300	34	797
Dec	0.8420	0.8420	-0.0042	0.8420	0.8420	1	215

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6176	1.6174	-0.0004	1.6198	1.6128	14,978	34,142
Sep	1.6140	1.6160	+0.0008	1.6180	1.6120	14	753
Dec	-	1.6140	+0.0014	1.6140	1.6100	78	91

UK INTEREST RATES

LONDON MONEY RATES

Mar 25	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 5⅝	6⅛ - 5⅜	6⅛ - 6	6⅞ - 6⅜	6⅝ - 6⅜	7 - 6⅞
Sterling CDs	-	-	6⅜ - 6⅛	6⅝ - 6⅜	6½ - 6⅞	6⅝ - 6⅝
Treasury Bills	-	-	6⅛ - 5⅞	6¼ - 6⅛	-	-
Bank Bills	-	-	6⅛ - 5⅞	6⅜ - 6⅛	6½ - 6⅜	-
Local authority deps.	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 5⅞	6⅜ - 6½	6⅝ - 6½	6⅝ - 6⅝
Discount Market deps	6 - 5¾	6 - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Mar 21, 5.9974pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 28, 1997. Agreed rate for period Mar 26, 1997 to Apr 21, 1997, Scheme III 7.53pc. Reference rate for period Feb 1, 1997 to Feb 28, 1997, Schemes IV & V 5.286pc. Finance House Base Rate 6½pc from Mar 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.33	93.34	+0.02	93.35	93.33	7946	117396
Sep	93.06	93.07	+0.03	93.08	93.05	7091	84948
Dec	92.82	92.84	+0.04	92.85	92.81	6707	64104
Mar	92.62	92.64	+0.04	92.65	92.61	5063	45065
Jun	92.48	92.50	+0.04	92.51	92.47	1970	35395

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9325	0.16	0.13	0.13	0.09	0.31	0.54
9350	0.06	0.06	0.07	0.22	0.48	0.73
9375	0.01	0.02	0.03	0.42	0.70	0.94

Est. vol. total, Calls 4792 Puts 5060. Previous day's open int., Calls 150529 Puts 153294

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	6.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	● Members of London Investment Banking Association	
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00	* In administration	
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

EMS EUROPEAN CURRENCY UNIT RATES

Mar 25	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.734449	-0.000177	-8.05	11.49	54
Portugal	197.398	196.365	+0.329	-0.52	3.06	4
Finland	5.85424	5.83035	+0.00393	-0.41	2.94	3
Netherlands	2.16979	2.19304	-0.00006	1.07	1.43	-8
Spain	163.826	165.632	+0.1	1.10	1.40	-8
Denmark	7.34555	7.43695	+0.00342	1.24	1.28	-9
Germany	1.92573	1.95058	+0.0006	1.29	1.21	-13
Belgium	39.7191	40.2459	+0.0134	1.33	1.17	-10
Austria	13.5485	13.7292	+0.0039	1.33	1.17	-10
France	6.45863	6.57856	-0.00004	1.86	0.65	-16
Italy	1906.48	1954.45	+1.56	2.52	0.00	-18
NON ERM MEMBERS						
Greece	295.269	307.098	-0.115	4.01	-1.43	-
UK	0.793103	0.715275	-0.001368	-9.81	13.67	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
1.590	3.05	3.75	-	0.24	1.01	1.51
1.600	2.32	3.08	3.64	0.42	1.35	1.88
1.610	1.75	2.51	2.97	0.85	1.75	-

Previous day's vol., Calls 632 Puts 728 . Prev. day's open int., Calls 28,806 Puts 33,165

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
0.590	0.71	1.13	1.39	0.39	0.67	0.84
0.595	0.46	0.86	1.11	0.62	0.91	1.07
0.600	0.28	0.64	0.89	0.93	1.20	1.35

Previous day's vol., Calls 2,676 Puts 977 . Prev. day's open int., Calls 28,855 Puts 40,687

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.07	94.08	+0.01	94.09	94.07	75,306	503,113
Sep	93.84	93.84	+0.01	93.85	93.83	72,102	374,618
Dec	93.61	93.62	+0.01	93.64	93.61	36,650	259,327

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.74	94.76	+0.01	94.76	94.74	201	1,551
Jun	94.62	94.63	+0.02	94.63	94.62	385	8,540
Sep	94.40	94.40	+0.03	94.40	94.39	55	2,724

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Apr	May	Jun	Sep	PUTS Apr	May	Jun	Sep
9650	0.19	0.20	0.21	0.18	0	0.01	0.02	0.08
9675	0.01	0.02	0.05	0.06	0.07	0.08	0.11	0.21
9700	0	0	0.01	0.01	0.31	0.31	0.32	0.41

Est. vol. total, Calls 13851 Puts 2094. Previous day's open int., Calls 425941 Puts 226120

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9825	0.08	0.14	0.15	0.17	0.26	0.39
9850	0.02	0.05	0.07	0.36	0.42	0.56

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 1050 Puts 1385

WORLD INTEREST RATES

MONEY RATES

March 25	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅝	3⅛	3⅛	3⅛	3½	6.00	2.50	-
France	3¼	3⅛	3⅛	3⅛	3⅛	3.10	-	4.75
Germany	3⅛	3⅛	3⅛	3⅛	3¼	4.50	2.50	3.00
Ireland	5⅝	5¾	5⅞	5⅞	5⅞	-	-	6.25
Italy	7⅛	7¼	7⅛	7⅛	7⅛	8.25	6.75	7.58
Netherlands	3⅛	3⅛	3⅛	3⅛	3¼	-	3.00	3.30
Switzerland	1⅛	1⅜	1⅜	1⅜	1⅜	-	1.00	-
US	5⅛	5¾	5⅞	5⅞	6⅛	-	5.00	-
Japan	½	½	½	½	½	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅞	5¾	6⅛	-	-	-
US Dollar CDs	-	5.45	5.52	5.64	5.92	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4¼	4⅛	-	-	-
SDR Linked Ds	-	3⅛	3¾	3⅛	3⅛	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 25	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅝ - 3¼	3⅞ - 3¼	3⅞ - 3⅝	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞
Danish Krone	3⅞ - 3¼	3⅝ - 3⅞	3⅞ - 3⅞	3¾ - 3⅝	3⅞ - 3⅞	4⅛ - 3⅞
German Mark	3¼ - 3⅛	3⅞ - 3⅝	3⅛ - 3⅛	3⅝ - 3⅛	3⅞ - 3⅛	3⅞ - 3⅞
Dutch Guilder	3⅛ - 3⅛	3⅛ - 3⅛	3¼ - 3⅛	3⅛ - 3⅛	3⅞ - 3⅛	3⅞ - 3⅞
French Franc	3¼ - 3⅛	3⅜ - 3⅛	3⅞ - 3⅛	3⅝ - 3¼	3⅞ - 3⅞	3⅝ - 3½
Portuguese Esc.	6¼ - 6¼	6¼ - 6⅛	6¼ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅛	6⅛ - 6⅛
Spanish Peseta	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5¾
Sterling	6⅛ - 6	6⅛ - 5⅞	6⅛ - 6⅛	6⅜ - 6¼	6⅞ - 6½	6⅞ - 6⅞
Swiss Franc	2 - 1½	2⅛ - 2⅛	2 - 1⅞	1⅞ - 1⅞	1⅞ - 1⅞	1⅞ - 1⅞
Canadian Dollar	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 2⅞	3¼ - 3⅛	3⅛ - 3⅛	4 - 3⅞
US Dollar	5⅝ - 5½	6⅛ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5¾	6⅛ - 6⅛
Italian Lira	7⅞ - 7	7⅞ - 7⅛	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅞
Japanese Yen	⅝ - ½	1⅛ - ⅞	⅞ - ⅞	⅞ - ⅞	⅞ - ⅞	⅞ - ¾
Asian $Sing	3⅛ - 3⅛	3⅝ - 3¼	3⅛ - 3⅛	3⅛ - 3⅛	3¼ - 3⅛	3⅞ - 3⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.53	96.54	+0.02	96.54	96.52	9,163	71,807
Sep	96.43	96.44	+0.02	96.44	96.42	7,918	49,951
Dec	96.32	96.32	-	96.33	96.32	4,846	29,525

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.69	96.69	+0.01	96.69	96.67	19550	225993
Sep	96.59	96.60	+0.02	96.60	96.58	12693	192448
Dec	96.40	96.43	+0.04	96.44	96.39	20403	190733
Mar	96.20	96.24	+0.04	96.26	96.20	17095	145540

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Apr	96.74	96.74	-	96.74	96.74	1175	5170
May	-	96.73	-	-	-	0	4083
Jun	-	96.73	-	-	-	0	625
Jul	-	96.72	-	-	-	0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.70	92.70	+0.01	92.75	92.59	29005	115948
Sep	93.02	93.00	+0.02	93.03	92.89	14996	58138
Dec	93.10	93.09	+0.02	93.11	92.98	6934	33900
Mar	93.10	93.10	+0.02	93.10	93.00	1847	23219

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.15	98.16	+0.03	98.18	98.15	4701	44321
Sep	98.13	98.13	+0.04	98.15	98.12	3244	21047
Dec	98.00	98.01	+0.05	98.02	97.98	1446	15013
Mar	97.87	97.87	+0.06	97.87	97.86	181	6773

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.29	99.30	+0.03	99.29	99.29	180	n/a
Sep	99.15	99.15	+0.04	99.15	99.15	100	n/a
Dec	98.97	98.97	+0.04	98.97	98.97	2000	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.69	95.72	+0.04	95.72	95.69	1605	10512
Sep	95.63	95.65	+0.04	95.65	95.62	494	5260
Dec	95.55	95.55	+0.04	95.56	95.53	420	5071
Mar		95.42	+0.05	-	-	0	3701

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9250	0.43	0.79	0.92	0.23	0.29	0.33
9275	0.29	0.63	0.75	0.34	0.38	0.41
9300	0.18	0.46	0.60	0.48	0.46	0.51

Est. vol. total, Calls 13751 Puts 1971. Previous day's open int., Calls 130597 Puts 52977

Danes test drinking water for pesticides

By Alison Maitland

The Danish authorities are carrying out urgent tests of drinking water after high levels of suspected pesticide residues were found in Copenhagen's water.

The Copenhagen food safety agency, responsible for water quality, said it suspected the residues were from Roundup, the world's most widely used herbicide, developed by Monsanto, the US biotechnology company.

Mr Jorgen Hoejmark Jensen, agency director, said residue levels detected in mid-March were very worrying. The highest level found in water was 0.18 microgrammes per litre, nearly double the EU's 0.1 microgramme limit.

He stressed these levels posed no threat to human health but said Roundup had been approved because it was not supposed to enter groundwater. If the residues were shown to come from Roundup, "it really questions whether the method for approving pesticides is correct".

Monsanto, which last year ran into controversy over the lack of labelling on its genetically modified soyabeans, said it was confident the residues did not come from Roundup. A spokesman in Brussels said water tests of Roundup had only ever found ampa, the residue detected in Denmark, in conjunction with glyphosate, the herbicide's active ingredient. In the Danish samples, only ampa was found.

Roundup is used extensively to kill weeds in crops or alongside roads and railways. Mr Jensen said it would be even more widely used with the arrival of crops genetically engineered to be resistant to Roundup. Beet plants genetically modified to tolerate Roundup are awaiting approval by the Danish government. Roundup-tolerant sugarbeet and oilseed rape are lining up for EU approval. Monsanto said applying Roundup to these crops would lead to lower use of herbicides.

Commenting on public concern about the ampa residues, it said: "In the present environment, a lot of people are unfortunately using whatever information comes to hand to advance their case, which is to oppose biotechnology."

The Danish government's environment agency said water samples had been sent to laboratories in Denmark, the Netherlands and Germany to check whether first results were reliable. The results are expected at the end of April.

Norilsk news hits price of nickel

MARKETS REPORT

By Kenneth Gooding and Robert Corzine

Nickel prices fell on the London Metal Exchange yesterday after workers at Norilsk in Russia, one of the world's biggest producers, indicated that there would be no strike before June 30.

Another rise in LME nickel stocks also put downward pressure on the price. Stocks have risen by 2,022 tonnes this month to date, following a fall of 3,300 tonnes in the first two months of 1997.

Norilsk is also a substantial producer of platinum and palladium. In London yesterday, following the news from Russia, the price of palladium fell by $4.50 a troy ounce to $143.50 while its sister metal was down by $2.50 an ounce to $372.

Oil prices were steady ahead of the latest US stock data, which have given world markets much of their direction in recent weeks. Brent Blend for May delivery, the international benchmark, added about 10 cents a barrel in the afternoon session on London's International Petroleum Exchange, but later fell back to $19.58 a barrel, unchanged from Monday's close.

Forecasters expected the figures from the American Petroleum Institute to be generally neutral.

Coffee futures in London rallied in afternoon trading after Monday's sharp fall. The May position closed $26 higher at $1,567 after falling to $1,515 in the morning.

LME WAREHOUSE STOCKS
(As at Thursday's close)
tonnes

Aluminium	-8,775	to 855,525
Aluminium alloy	-120	to 72,840
Copper	-4,300	to 163,475
Lead	-175	to 107,425
Nickel	+846	to 47,622
Zinc	-1,350	to 458,100
Tin	+700	to 10,205

Bre-X to pass 'salting' test

By Kenneth Gooding, Mining Correspondent

In the good old days a gold mine promoter wanting to fool potential investors could take a shot gun, fill it with gold pellets and shoot the gold into the ore body. That was a bit more sophisticated than simply scattering some gold dust in the sand.

Things have moved on. Most gold miners are now dealing with ore in which the metal is disseminated finely through the rock, is not visible to the naked eye and sometimes not even under a microscope.

However, there is still a relatively simple way to "salt" a mine. Gold is absorbed into an acid solution and injected into the ground-up rock before it is sent for testing.

The idea that something of this sort has been attempted at Bre-X's Busang project in Indonesia is preposterous. Bre-X has completed many thousands of metres of drilling and, as one analyst said yesterday, "it would be physically impossible to falsify all those samples".

So why did the Bre-X share price wobble a little when suggestions were made that Busang might not be as rich in gold as has been mooted by the company?

Blame Timbuktu Gold. Blame Cartaway Resources.

In April last year Timbuktu's shares soared from C$4 to C$18 after it reported sensational results from drilling at its gold project in Mali. Then it was revealed that Mr Oliver Reese, Timbuktu president, had a history of run-ins with Canadian and US securities regulators. The Alberta stock exchange reviewed Timbuktu's work and determined the assays had been salted.

Cartaway, which started life as a rubbish collection business, branched out into mining and its shares raced from C$2.50 to C$17 on the Alberta exchange in May after samples suggested it might have a big nickel discovery near Voisey's Bay in Labrador. The price plunged back to C$1.50 when full tests proved disappointing.

Bre-X is entirely different. Many independent geologists have walked over the Busang ground in the past year and examined the slim "cores" of rock extracted by drilling. Freeport-McMoRan Copper & Gold, which is to raise finance and develop a mine at Busang, has started its "due diligence".

It will first check and analyse Bre-X's work and data before deciding where to do its own drilling. As one analyst said: "Freeport only started two weeks ago. It is highly unlikely it has had enough time to complete its own work and come to any conclusions."

Foreign investors eye Kasombo mine

Peering into the open-cast mine, where pumps are removing water from the last traces of cobalt-bearing rock, the Polish engineer cannot conceal his satisfaction. "Average cobalt purity here is 2.7 per cent, compared with 0.2 per cent in Zambia. This place really is a geological scandal of riches."

On the outskirts of Lubumbashi in Zaire, the Kasombo mine perfectly illustrates why, in spite of the strong possibility that the rebel Alliance of Democratic Forces will soon seize the southern province of Shaba, foreign companies are queueing up to sign joint ventures with Gecamines, the state-owned copper and cobalt mining company.

In one year, Kasombo has produced 3,000 tonnes of cobalt – nearly half the world's annual output of 8,000 tonnes. Although the deposit is near exhaustion, a second one nearby is expected to come on stream. When that is finished, a third will be opened.

Zaire may be short of many things, but untapped mineral wealth is not one of them. The mine is a joint venture, a model for future deals. Gecamines provides the concession and mining expertise. An expatriate businessman provides the machinery. In a twist of historic irony, Union Minière, the Belgian company that owned Gecamines in pre-independence days, is putting up the funding.

Brought to its knees by decades of mismanagement, crippling taxation, underinvestment and theft, Gecamines is now counting on a series of quick-profit, short-term partnerships with North American, South African and other foreign companies to put it back on the path to profitability.

In December, Canadian company Eurocan Consolidated Ventures paid Gecamines an initial $70m downpayment for rights to Tenke Fungurume, a concession believed to contain 223m tonnes of copper and cobalt reserves. A feasibility study is under way.

Another Canadian company, International Panorama Resource, is discussing processing cobalt and copper tailings believed to contain 6m tonnes of material. And negotiations to reopen Kipushi, once the highest-grade zinc mine in the world, are being conducted with American Mineral Fields.

"We expect to sign another four joint ventures in the coming year," says Mr Yumba Monga, Gecamines technical director. "There was a lot of hesitation at first – Zaire was seen as too risky. But now there is so much interest we are putting projects out to tender."

The approach is a measure of frustration at the delay in privatising Gecamines. While Kinshasa's transitional parliament hesitates to let go of a company still regarded as the flagship of the Zairean economy, Gecamines executives are desperate for new funds. For the company is on its last legs. In spite of production capacity of 470,000 tonnes of copper and between 14,000 and 16,000 tonnes of cobalt, last year's output was a pitiful 38,000 and 4,000 tonnes respectively.

The rot set in during the late 1980s, when global demand for copper plummeted and Gecamines executives, working in collusion with customs officials, started plundering the company's warehouses. However, at that stage production was still high enough to conceal the extent of the losses.

In 1990, the Kamoto mine caved in, robbing the company of 30 per cent of its output. In 1991, the "liberalisation" of the industry by Shaba's regional governor – which ended Gecamines's exclusive right to trade copper and cobalt – had disastrous consequences.

Gecamines employees cannibalised the installations, sending lorries of equipment and concentrate to South Africa to be sold. In one notorious incident, 30km of high-voltage cable supplying the plants with electricity were simply cut and transported across the border.

The final blow came in 1993, when army-led looting devastated the country. Gecamines closed down a handful of mines and factories, retaining only the most profitable.

Officials say it would take $1bn in investment to get production back to its original levels. They believe the future now rests with the foreign investors, many of whom are already involved in the rehabilitation of Zambia's copper belt and regard Zaire as a natural extension of their activities.

The readiness of foreign executives to sign contracts with a tottering government may not be quite as foolhardy as it seems. Any new authority, especially one keen to temper strong secessionist leanings in Shaba, will want to bring new investment into the province.

Some prospective investors, Gecamines officials say, are hedging their bets by simultaneously cultivating contacts with both Kinshasa and the Alliance. But in fact, the rebels have every interest in respecting deals signed with the government.

"We don't know what Kabila's intentions are," says Mr Yumba. "But the future lies in the structures we are setting up."

Michela Wrong

Michela Wrong

The Kasombo mine in Zaire: a model for future deals

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1616-7	1649-50
Previous	1626.5-27.5	1659-60
High/low		1655/1640
AM Official	1611.5-2.0	1645-5.5
Kerb close		1653.5-4.0
Open int.	265,810	
Total daily turnover	70,190	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1520-23	1545-50
Previous	1515-25	1545-50
High/low		1550/1538
AM Official	1505-15	1538-9
Kerb close		1545-50
Open int.	5,884	
Total daily turnover	1,061	

■ LEAD ($ per tonne)

Close	685-6	680-1
Previous	683.5-4.5	683-4
High/low		682/675
AM Official	681-2	678-8.5
Kerb close		679-80
Open int.	39,298	
Total daily turnover	6,145	

■ NICKEL ($ per tonne)

Close	7640-50	7755-65
Previous	7745-55	7860-65
High/low		7800/7675
AM Official	7610-20	7800-05
Kerb close		7770-80
Open int.	50,830	
Total daily turnover	23,711	

■ TIN ($ per tonne)

Close	5810-20	5845-50
Previous	5815-25	5865-70
High/low	5790	5860/5790
AM Official	5785-95	5835-40
Kerb close		5845-50
Open int.	16,395	
Total daily turnover	7,080	

■ ZINC, special high grade ($ per tonne)

Close	1273-4	1295-6
Previous	1272-73	1295-95.5
High/low		1300/1284
AM Official	1265.5-6.5	1287.5-8.0
Kerb close		1298.5-9.0
Open int.	86,088	
Total daily turnover	22,100	

■ COPPER, grade A ($ per tonne)

Close	2430-32	2370-1
Previous	2420-23	2365-66
High/low	2440/2419	2383/2360
AM Official	2419-20	2384-5
Kerb close		2377-8
Open int.	138,099	
Total daily turnover	41,821	

■ LME AM Official £/$ rate: 1.6160
LME Closing £/$ rate: 1.6176

Spot: 1.6172 3 mths: 1.6150 6 mths: 1.6125 9 mths: 1.6096

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	119.50	+2.10	119.60	117.05	829	2,971
Apr	113.80	+1.60	113.80	111.80	525	4,833
May	112.90	+1.95	113.20	110.40	3,430	23,373
Jun	110.70	+1.65	110.70	109.80	74	1,139
Jul	109.15	+1.55	109.40	107.50	309	8,646
Aug	107.40	+1.40	107.40	107.40	20	679
Total					5,376	58,756

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	348.85-349.35		
Opening	350.40-350.70		
Morning fix	350.90	217.007	510.394
Afternoon fix	349.60	215.856	509.367
Day's High	351.30-351.60		
Day's Low	348.60-348.90		
Previous close	350.25-350.75		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.38	6 months	4.30
2 months	4.36	12 months	4.27
3 months	4.33		

Silver Fix	p/troy oz.	US cts equiv.
Spot	319.65	516.75
3 months	324.30	523.55
6 months	328.10	530.30
1 year	338.60	544.05

Gold Coins	$ price	£ equiv.
Krugerrand	351-353	216-218
Maple Leaf	-	-
New Sovereign	82-85	50-52

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	347.7	-2.7	-	-	-	-
Apr	348.2	-2.7	352.5	347.8	21,603	39,881
Jun	350.5	-2.5	354.5	350.0	10,516	44,682
Aug	352.8	-2.5	356.8	353.5	2,227	11,874
Oct	355.3	-2.5	358.8	356.0	34	5,844
Dec	357.9	-2.5	361.8	358.0	141	21,673
Total					34,803	168,260

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Apr	375.5	-	379.5	374.5	2,080	11,445
Jul	378.1	-2.7	382.0	377.0	1,412	5,530
Oct	380.5	-2.7	384.0	379.5	85	1,722
Jan	382.7	-2.7	384.5	384.5	12	1,137
Total					3,597	19,834

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Mar	145.70	-1.55	143.50	143.50	1	5
Jun	146.80	-2.45	149.25	143.75	404	8,973
Sep	148.05	-2.45	-	-	58	835
Dec	149.05	-2.45	-	-	1	190
Total					405	10,003

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Mar	509.4	-7.7	516.0	509.0	272	240
May	512.0	-7.7	520.0	510.0	12,834	54,400
Jul	517.1	-7.8	524.5	515.0	1,126	18,186
Sep	522.1	-7.8	525.5	518.5	25	3,311
Dec	529.6	-7.8	533.0	526.5	40	5,196
Jan	532.5	-7.8	553.0	553.0	2	13
Total					14,420	90,271

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	21.20	+0.14	21.28	20.96	35,393	92,199
Jun	21.19	+0.17	21.21	20.94	11,175	58,671
Jul	21.05	+0.13	21.13	20.86	3,962	27,922
Aug	20.95	+0.14	21.02	20.73	2,644	20,100
Sep	20.92	+0.19	20.92	20.59	2,938	13,262
Oct	20.85	+0.19	20.87	20.71	1,109	15,155
Total					67,687	388,475

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	19.72	+0.13	19.77	19.46	16,972	88,476
Jun	19.79	+0.17	19.84	19.53	7,545	33,248
Jul	19.81	+0.18	19.82	19.58	2,677	14,692
Aug	19.80	+0.20	19.80	19.53	1,859	6,694
Sep	19.71	+0.14	19.76	19.60	642	6,547
Oct	19.68	+0.14	19.68	19.63	160	4,349
Total					na	na

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	56.75	+1.02	57.10	55.60	14,784	20,172
May	56.15	+0.83	56.35	55.25	9,805	28,819
Jun	55.20	+0.73	56.35	55.35	3,679	14,828
Jul	56.40	+0.63	56.40	55.85	1,816	13,837
Aug	56.70	+0.38	56.70	56.30	920	8,367
Sep	57.50	+0.53	57.50	57.00	175	5,232
Total					32,228	123,754

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	172.25	+1.50	173.25	169.25	9,236	25,299
May	173.50	+1.75	174.00	170.75	5,085	8,984
Jun	174.25	+0.75	174.75	172.25	2,888	10,674
Jul	175.25	+0.25	175.50	174.00	454	4,604
Aug	176.75	-0.25	177.50	176.00	181	2,059
Sep	178.50	-0.25	179.00	177.75	67	1,526
Total					na	na

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
May	1.905	+0.054	1.905	1.841	13,836	31,698
Jun	1.945	+0.045	1.950	1.900	4,822	14,988
Jul	1.970	+0.045	1.970	1.915	1,469	11,985
Aug	1.980	-	1.980	1.980	1,137	9,528
Sep	1.985	-	1.985	1.950	892	10,002
Oct	2.025	+0.006	2.025	1.990	1,032	10,806
Total					72,558	165,419

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	66.50	-0.01	66.90	65.65	12,479	17,958
May	66.25	+0.14	66.60	65.80	11,032	39,728
Jun	65.55	+0.39	65.60	64.90	4,159	19,430
Jul	64.40	+0.47	64.40	63.65	2,309	9,854
Aug	62.85	+0.47	63.00	62.40	805	5,473
Sep	61.45	+0.52	61.45	60.85	409	2,747
Total					31,538	100,813

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	101.70	-0.50	102.30	101.50	242	3,132
Jul	104.00	-0.40	104.55	103.90	259	1,351
Sep	95.50	-0.50	95.50	95.50	15	35
Nov	97.50	-0.50	97.50	97.45	70	2,135
Jan	99.50	-0.50	99.50	99.50	25	523
Mar	101.50	-0.50	101.50	101.50	10	198
Total					616	7,374

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

May	389.50	+3	391.00	386.25	3,470	27,749
Jul	385.50	+5	386.00	380.50	6,942	41,420
Sep	387.50	+5	388.00	384.00	817	5,400
Dec	395.00	+4.75	396.50	390.00	375	5,815
Mar	396.00	+3.5	395.00	394.50	14	87
Jul	382.00	+3	-	-	1	181
Total					11,618	80,859

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

May	302.25	+3.25	303.25	298.50	32,262	148,631
Jul	304.25	+4.25	305.00	300.00	13,058	108,497
Sep	296.25	+2.00	298.00	294.00	1,052	17,420
Dec	294.75	+2.25	297.00	292.75	8,818	84,184
Mar	299.00	+2.50	300.50	297.00	88	8,199
May	301.00	+2.00	301.00	300.00	13	330
Total					55,366	372,292

■ BARLEY LIFFE (£ per tonne)

May	93.00	-1.00	93.00	93.00	10	138
Sep	92.75	-0.25	93.00	93.00	3	31
Nov	94.75	-0.25	95.00	94.75	60	489
Jan	96.75	-0.25	-	-	-	38
Mar	98.75	-0.25	-	-	-	-
May	-	-	-	-	-	6
Total					86	696

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

May	842.00	+10.25	847.00	830.75	28,949	77,228
Jul	843.75	+11	847.00	831.00	11,079	58,985
Aug	815.50	-	828.50	815.50	784	6,472
Sep	759.50	+7.25	762.00	757.00	203	5,360
Nov	708.50	+3.25	710.50	705.50	3,757	33,659
Jan	714.50	+3.5	716.50	712.00	67	1,880
Total					42,828	186,526

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

May	24.15	+0.30	24.20	23.80	20,231	41,415
Jul	24.59	+0.33	24.60	24.22	8,874	29,738
Aug	24.77	+0.28	24.80	24.55	1,979	6,371
Sep	24.95	+0.30	24.95	24.75	370	3,582
Oct	25.05	+0.27	25.05	24.85	82	3,583
Dec	25.30	+0.30	25.27	25.00	1,697	11,113
Total					33,238	96,634

■ SOYABEAN MEAL CBT (100 tons; $/ton)

May	277.2	+2.8	279.4	275.1	8,004	45,939
Jul	273.4	+3.7	274.5	271.0	3,807	27,751
Aug	263.2	+2.4	264.5	261.5	860	8,851
Sep	245.2	+1.2	247.0	244.8	670	5,707
Oct	225.0	-	226.5	224.5	107	4,456
Dec	221.3	+0.5	223.0	220.8	3,241	9,379
Total					16,838	103,293

■ POTATOES LIFFE (£/tonne)

Apr	41.0	+1.0	40.0	39.5	24	526
May	49.0	+1.0	48.0	48.0	15	369
Jun	68.0	+1.0	-	-	-	-
Nov	68.0	+3.0	70.0	70.0	-	2
Mar	98.0	+2.0	-	-	-	-
Apr	108.0	+2.0	108.0	107.0	10	726
Total					47	1,630

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Mar	1520	-10	-	-	23	401
Apr	1580	-10	1585	1570	75	1,154
May	1550	-20	1575	1546	58	627
Jul	1305	-15	1320	1300	25	726
Oct	1415	-25	1415	1410	11	316
Jan	1425	-25	1455	1450	-	47
Total					169	3,271

	Close	Prev
BFI	1524	1526

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1007	+12	-	-	124	173
May	1016	+11	1019	997	1,488	31,316
Jul	1028	+10	1029	1009	802	15,779
Sep	1033	+7	1033	1018	201	12,177
Dec	1029	+5	1034	1022	327	25,782
Mar	1045	+5	1047	1038	398	23,037
Total					3,310	136,125

■ COCOA CSCE (10 tonnes; $/tonnes)

May	1445	+17	1451	1430	4,651	31,474
Jul	1471	+11	1480	1460	2,415	22,340
Sep	1495	+9	1505	1486	51	11,419
Dec	1521	+11	1526	1519	90	8,678
Mar	1545	+12	1545	1545	217	18,656
May	1565	+12	-	66	76	6,788
Total					7,600	100,459

■ COCOA (ICCO) (SDR's/tonne)

Mar 24	Price	Prev. day
Daily	1126.00	1135.92

■ COFFEE LIFFE ($/tonne)

Mar	1557	+16	1550	1511	118	860
May	1567	+26	1578	1515	5,394	23,526
Jul	1579	+19	1590	1535	2,012	12,581
Sep	1584	+17	1595	1545	568	7,106
Nov	1569	+19	1583	1530	126	2,691
Jan	1549	+19	1535	1510	37	751
Total					8,260	47,597

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

May	179.30	+16.40	181.00	160.50	11,193	17,987
Jul	168.65	+14.85	170.50	152.50	3,548	7,953
Sep	159.30	+13.95	151.35	145.00	1,326	5,385
Dec	145.65	+11.05	140.80	134.00	404	3,665
Mar	138.80	+11.80	133.00	130.00	194	1,086
May	138.80	+10.75	125.00	124.55	104	216
Total					16,776	36,408

■ COFFEE (ICO) (US cents/pound)

Mar 24		Prev. day
Comp. daily	124.90	128.68
15 day average	137.71	138.51

■ WHITE SUGAR LIFFE ($/tonne)

May	306.4	-0.3	308.1	306.0	970	14,903
Aug	305.9	-0.4	307.5	305.8	293	5,258
Oct	301.9	-0.7	303.5	302.3	186	3,331
Dec	300.9	-0.8	302.6	302.6	-	985
Mar	300.9	-0.6	302.8	302.5	21	510
May	297.5	-6.3	303.7	302.9	-	154
Total					1,481	25,891

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

May	10.86	-0.06	11.01	10.85	3,983	61,188
Jul	10.63	-0.04	10.74	10.62	1,510	35,993
Oct	10.57	-0.02	10.65	10.56	842	26,102
Mar	10.56	-0.03	10.64	10.56	607	13,607
May	10.57	-	10.62	10.58	328	2,927
Jul	10.58	-	10.60	10.57	84	1,415
Total					7,250	141,574

■ COTTON NYCE (50,000lbs; cents/lbs)

May	72.59	-1.38	74.20	72.00	4,301	32,846
Jul	74.20	-1.27	75.65	74.01	1,799	15,941
Oct	75.73	-0.77	76.60	75.55	101	1,560
Dec	76.16	-0.54	76.84	76.00	1,156	21,310
Mar	77.05	-0.55	77.40	77.40	22	1,987
May	78.20	-	77.65	77.50	153	522
Total					7,398	74,838

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	83.35	-1.35	85.50	83.15	1,701	14,811
Jul	85.20	-1.35	87.45	85.00	526	5,884
Sep	87.55	-0.50	88.50	88.00	98	3,722
Nov	89.80	-0.05	90.10	89.80	55	1,419
Jan	91.00	+0.15	91.00	91.00	13	659
Mar	92.00	-0.25	92.00	92.00	18	366
Total					2,408	28,879

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	68.100	-0.525	68.575	67.800	7,884	30,687
Jun	63.525	-0.500	64.000	63.500	4,402	28,269
Aug	63.525	-0.250	63.775	63.425	2,741	21,941
Oct	66.975	-0.100	67.175	66.850	758	15,018
Dec	69.350	+0.050	69.400	69.200	405	7,246
Feb	70.625	+0.175	70.625	70.425	469	3,067
Total					16,663	106,988

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Apr	73.175	-1.100	74.300	72.675	3,275	9,441
Jun	80.850	-1.300	81.800	80.450	6,369	12,653
Jul	78.975	-1.025	79.800	78.475	2,828	3,480
Aug	75.625	-0.900	76.375	75.375	1,050	2,422
Oct	69.800	-0.775	69.950	69.150	815	1,796
Dec	67.375	-0.875	68.000	67.150	444	1,369
Total					14,871	31,812

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Mar	75.950	-2.850	78.300	75.800	9	14
May	75.950	-2.900	78.450	75.900	2,065	3,686
Jul	75.800	-2.350	78.000	75.700	1,321	2,226
Aug	73.300	-1.875	75.425	73.300	172	404
Feb	68.350	-0.850	69.250	68.900	7	75
Total					3,575	6,813

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1600	35	91	5	35
1650	8	63	28	56
1700	2	42	71	84
■ COPPER (Grade A) LME	Apr	Jul	Apr	Jul
2250	193	151	1	52
2350	96	96	3	95
2450	25	56	31	153
■ COFFEE LIFFE	May	Jul	May	Jul
1650	37	108	120	179
1700	26	91	158	212
1750	18	77	201	248
■ COCOA LIFFE	May	Jul	May	Jul
975	50	80	9	29
1000	33	65	17	39
1025	22	52	31	51
■ BRENT CRUDE IPE	May	Jun	May	Jun
1950	52	-	38	71
2000	32	60	-	-
2050	22	42	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$18.29-8.31w	-0.02
Brent Blend (dated)	$18.73-8.75	-0.18
Brent Blend (May)	$19.58-9.60	-0.18
W.T.I.	$21.04-1.07w	-0.215

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$216-218	-1
Gas Oil	$173-175	+1
Heavy Fuel Oil	$81-83	-1
Naphtha	$189-191	-3
Jet fuel	$193-196	+1
Diesel	$182-184	+2

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.60-9.75	+0.025

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Apr)	9.630	+0.08

■ OTHER

Gold (per troy oz)♣	$349.10	-1.40
Silver (per troy oz)♣	512.00c	-3.00
Platinum (per troy oz.)	$374.75	-0.50
Palladium (per troy oz.)	$142.00	-2.00
Copper	118.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.29r	-0.02
Tin (New York)	271.50	-4.00
Cattle (live weight)	96.74p	-3.41*
Sheep (live weight)	147.73p	-4.23*
Pigs (live weight)†	81.83p	-2.22*
Lon. day sugar (raw)	$273.30	+2.00
Lon. day sugar (wte)	$309.90	+0.90
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (May)♥	79.00p	-1.25
Rubber (Jun)♥	80.25p	
Rubber (KL RSS No1)	299.5x	-1.50
Coconut Oil (Phil)§	735.0y	
Palm Oil (Malay.)§	560.0	
Copra (Phil)§	$480.0y	
Soyabeans (US)	218.0	-14
Cotton Outlook'A' index	80.10	
Wooltops (64s Super)	421p	-8.0

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w May y Apr/May♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4,287 head of pigs sold.

Minor metals

European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.65%, $ per tonne, 2,100-2,200 (2,100-2,225). Bismuth: min. 99.99%, tonne lots 2.90-3.15. Cadmium: min. 99.95%, cents a pound, 60.00-70.00. Cobalt: MB free market, min. 99.8%, 19.70-20.60 (19.00-20.00); min. 99.3%, 19.00-19.50 (18.00-18.75). Mercury: min. 99.99%, $ per 76 lb flask, 161-171. Molybdenum: drummed molybdic oxide, 4.45-4.60 (4.30-4.50). Selenium: min 99.5%, 2.35-3.15 (2.40-3.20). Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 45-55. Vanadium: min. 98%, cif, 3.90-4.05 (3.90-4.08). Uranium: Nuexco unrestricted exchange value, 12.25.

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 25	Mar 24	month ago	year ago
1967.9	1973.2	1976.9	2133.5

■ CRB Futures (Base: 1967 = 100)

Mar 24	Mar 21	month ago	year ago
243.97	246.40		

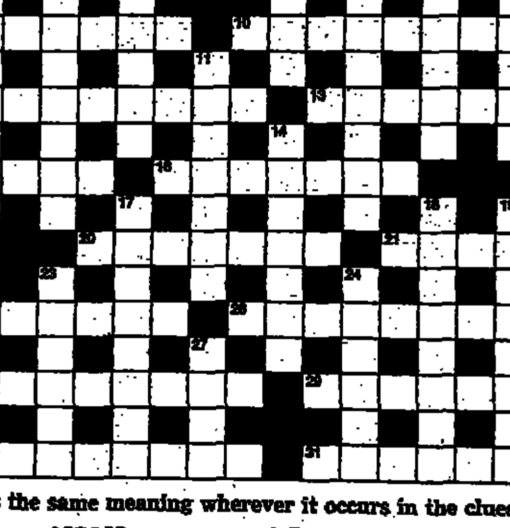
■ GSCI Spot (Base: 1970 = 100)

Mar 24	Mar 21	month ago	year ago
192.28	194.19	198.69	207.95

JOTTER PAD

CROSSWORD

No.9,334 Set by CINEPHILE



K has the same meaning wherever it occurs in the clues

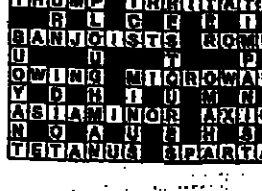
ACROSS

1 and 9 Sound of clean hair after a sort of bath in the K (6 and 6)
4 K work after game (8)
9 See 1 across
10 Marine beast, 5 among fish, at 0 feet? (3-5)
12 Lure lamb out of cover (8)
13 Way into or out of the K (6)
15, 20 Out of work, out of the K (4,1'6)
16 Vessel in or out of the K (7)
21, 20 Masterpiece in the K? (4,1'6)
25 Jacket (with acknowledgment to Shakespeare) (6)
26 Recorded expression of disapproval at hardwood in shop (8)
28 Cautious about bombast – certificate required (8)
29 Look! A soft fruit! (6)
30 Been in prison? Female's about to catch 'im (4,4)
31 See 22

DOWN

1 Appealed for speculation about the murmur of the wind (8)
2 I burbled about Maeterlinck's songster (4,4)
3 Abandon direction for a rise in the K (6)
5 Part of the K for Coventry (4)
6 Depression and hesitation in the K (8)
7 Half spineless, to put it another way (6)
8 Proof of the K? (6)
11 Accommodation not there at top speed (4,3)
14 Continue to have an affair and there'll be trouble (5,2)
17 Root prepared in former days in the K (3,5)
18, 19 Diana's preference: in the K her work was stolen (3,5,2,6)
22, 31 Sweet spurned, sadly, in the K (8,6)
23 In October one expects to see a fairy (6)
24 Put up or s – first in bewilderment (6)
27 Check tile stalk (4)

Solution 9,333



FT MANAGED FUNDS SERVICE

Offshore Funds

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
A$ Accum		A$19.554		+0.013	4.90
Asia Accum		[illegible]		+0.07	2.10
C$ Accum		C$18.868		+0.004	1.80
DM Accum		DM36.640		+0.016	2.00
DFl Accum		Dfl21.882		+0.008	1.80
ECU Accum		Ecu13.664		+0.006	3.00
FFr Accum		FFr87.657		+0.019	2.10
HK$ Accum		HK$123.43		+0.07	4.30
Lira Accum		L24272		+30	6.40
NZ$ Accum		NZ$41.778		+0.034	6.40
NKr Accum		NKr113.75		+0.03	2.00
S$ Accum		S$26.261		+0.008	2.20
SPta Accum		Pta2790.0		+2.2	5.00
£ Accum		£13.400		+0.009	5.10
SKr Accum		SKr122.72		+0.05	3.00
SFr Accum		SFr28.462		+0.002	0.80
US$ Accum		$20.857		+0.014	4.40
Yen Accum		Y3591.6		+0.1	0.19

Prices for dealing March 25

Jupiter Tyndall (Bermuda) Ltd
PO Box HM1255, Hamilton, Bermuda 001 809 292 2760
Jupiter Tyndall World Umbrella Fund Ltd

	Selling Price	Buying Price	+ or -	Yield Gr's
Eastland	$15.91	16.71	-0.08	4.31
Money	$14.34	15.07	+0.01	2.88
Mortgage	[illegible]	25.74	-0.08	7.08
North American	$14.33	15.08	-0.27	0.00
Dragon	$17.12	17.98	-0.34	0.90
Tiger	$16.84	17.69	-0.33	0.00
UK Small Cos	£1.48	1.56	-0.08	0.00

Rothschild Asset Management (CI) Ltd
PO Box 242, St Peter Port, Guernsey 01481 719700

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Five Arrows Latin Am Dist	5	$16.89	17.85	—	0
Five Arrows International Bond Funds					
FAIB £ Bond	3½	£22.05	22.76	—	6.43
FAIB US$ Bond	3½	$33.22	34.34	+0.02	5.39
FAIB £ Global	3½	£17.01	17.58	-0.07	4.84
FAIB US$ Global	3½	$29.89	30.91	+0.01	4.92

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

Abtrust Fund Managers Luxembourg SA (u)

Fidelity Funds - Contd.

Fleming Group (u)

Mercury Asset Management - Contd.

Midland Intl Circuit Fund SICAV(u)

ACM Global Investment - Contd.

Aetna International Umbrella Fund (u)

Credit Commercial de France

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation

LUXEMBOURG (REGULATED)(**)

ACM Global Investment

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LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

TEXTILES & APPAREL - Cont.

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

PROPERTY - Cont.

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£24½	—	*£31½	£20¼	1,973	3.1	Φ
Barlow	♣	£8½xd	+⅛	£9½	£5½	1,425	2.7	14.3
Gold Flds Prop R	†	139	-1½	171½	120	142	6.5	10.2
SA Brews		£19½	+⅛	£24⅛	£13¼	5,730	1.8	Φ
Standard Bank		£25½	-⅛	£31⅛	£21	3,181	1.4	22.8
Tiger Oats		1068	-3	1150	770	1,806	1.7	20.7
Tongaat-Hulett		789½	-3¼	1125	676¼	719.8	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings'formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- \# Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement
- ♠ Unregulated collective investment scheme

a Yield based on annualised dividend
h Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
k Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xp ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

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LONDON STOCK EXCHANGE

Stock shortage drives shares sharply higher

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London's equity market looked to have come to terms with the prospect of a rise in US rates after the FOMC meeting held in Washington yesterday.

After six consecutive sessions of losses, the FTSE 100 index yesterday rallied strongly, largely on the back of thebig rally on Wall Street.

On Monday the Dow Jones Industrial Average picked up a confidence-restoring 100 points, and it built on that performance at the outset of trading on Wall Street yesterday when the Dow pushed up a further 26 points in quick time.

The FTSE 100 index, which had fallen over 200 points during the previous six sessions recouped 55.9 or 1.3 per cent to end the day at 4,270.7.

Demand for the leaders spilled over into the second liners, where the FTSE 250 put on a more sedate performance, finishing a net 15.8 ahead at 4,552.7. But the market's smaller stocks were overlooked with the FTSE SmallCap index showing a 0.4 decline at 2,311.7.

There was no news on the Fed during London market hours; a decision on rates was expected shortly after 7pm London time.

Dealers said a rise of 25 basis points in US interest rates was fully priced into global markets and that Wall Street would probably consolidate its gains if that was the extent of the policy change. Some warned, however, that a no change policy or a 50 basis points increase would be unwelcome and could trigger another setback on US markets.

But the overall feeling in London was that Mr Alan Greenspan, the chairman of the Federal Reserve, had done an expert job in softening up markets to expect a rate rise. "He's warned of irrational exuberance, overheated asset prices and pre-emptive strikes," said one trader.

Gilts gave a measure of support to the equity market, climbing in a range of 6 to 11 ticks in front of today's auction of £2.5bn-worth of 10-year stock.

The big recovery in UK stock prices was evident from the start of trading when marketmakers, who added to the market's weakness on Monday by unloading all their remaining long positions ahead of the FOMC meeting, had to cope with buyers chasing UK shares after the Dow's rise.

They hoisted their opening levels, hoping to head off any big buying orders, but encountered a flurry of buyers adopting the view that a correction had run its course in the short term.

Demand for good quality stocks continued throughout the morning and carried on into the afternoon when the Dow's early strength gave London a second wind, driving the FTSE up more than 50 points.

There were hints, however, that the big marketmakers were becoming increasingly reluctant to make aggressive prices in large sizes because of the extreme volatility in stock markets.

Turnover remained at relatively high levels, reaching 975m by 6pm, well ahead of Monday's 805.9m. Customer business on Monday was valued at £3bn.

Indices and ratios

FTSE 100	4270.7	+55.9	FT 30	2823.1	+34.2
FTSE 250	4552.7	+15.8	FTSE Non-Fins p/e	19.17	18.02
FTSE 350	2109.4	+23.4	FTSE 100 Fut Jun	4293.0	+32.0
FTSE All-Share	2082.52	+21.23	10 yr Gilt yield	7.59	7.62
FTSE All-Share yield	3.66	3.70	Long gilt/equity yld ratio	2.08	2.06

Best performing sectors

1	Tobacco	+3.3
2	Banks Retail	+3.0
3	Insurance	+2.6
4	Gas Distribution	+2.4
5	Life Assurance	+2.2

Worst performing sectors

1	Building Matls & Merchs	-0.9
2	Distributors	-0.5
3	Electronic & Elect Equip	-0.3
4	Electricity	-0.2
5	Oil Exploration & Prod	-0.2

B Steel under pressure

By Joel Kibazo, Steve Thompson and Richard Lapper

British Steel surrendered 3 to 158¾p, the worst performer in the FTSE 100 index, as talk that next year's dividend may be under threat swept through the market.

A two-way pull between the bears and bulls brought turnover of 51m, the market's highest individual total and also the heaviest daily total recorded in the stock since 1991.

Sentiment was also dented by news that German steel and engineering group Krupp Hoesch had dropped its hostile bid for rival Thyssen and agreed instead to talks to form a joint steel company.

However, a consultants' report said the planned union may not significantly cut capacity in European steel making.

Analysts had expected Krupp Hoesch's hostile bid for Thyssen to trigger rationalisation in a European steel sector.

Analysts have been downgrading profit expectations over the last few weeks and several suggested a further round of cuts for the year to March 1998 is imminent. Previous estimates of £350m are expected to settle at around £150m-£200m.

Analysts also pointed to the recent strength of sterling against the D-Mark as another factor likely to hit earnings.

Pilkington, the glass manufacturer, shocked the market by issuing a profits warning linked to difficult markets in Continental Europe and sent ripples of uncertainty across the rest of the building materials sector. Pilkington shares were the worst performer in the FTSE 250 index, finishing a net 7¼ lower at 121p, their lowest closing level since July 1993, after hitting a session low of 117p immediately the warning hit the market.

The company said it was being hurt by poor trading conditions in Europe, particularly Germany. It said profits for the year ended March 1997 would be not less than £130m. That figure caused widespread dismay among analysts who had been forecasting profits upwards of £170m. Pilkington's warning had a depressing effect on other building materials companies, especially those with big interests in Germany, such as RMC, Wolseley, BPB, Caradon and Redland.

RMC settled 13 lower at 957p and Wolseley, the biggest builders and plumbers merchants in Austria, was 5 off at 491½p, the second and third worst performers in the FTSE 100. BPB dipped 7½ to 331½p and Caradon, due to report preliminary results this morning, lost 4 to 253½p.

Redland, where the company's European performance will be closely scrutinised when it releases its preliminary results tomorrow, lost 5¼ to 351½p. Redland has issued two profits warnings so far this year.

SIG, on the other hand, delighted the market with a set of results described as "stunningly good" by one analyst. The shares closed 18 higher at 312½p.

Travis Perkins, whose shares fell almost 5 per cent on Monday after its preliminary numbers, dropped a further 13½p to 481½p.

The day's big corporate deal – the Prudential's £2.8bn takeover of Scottish Amicable – was well received by the markets.

Prudential shares rose largely on relief that the company had not overpaid for the mutual insurer. At the same time, in a generally good day for financial stocks, the sheer size of the transaction helped underpin investors' perceptions of the potential value in the life assurance sector.

Prudential closed at 555½p, up 15¼p, halting a steady fall from its all-time high reached on 7 March. Mr David Nisbet, insurance analyst at NatWest Markets, described the reaction as "sensible".

He said: "It is not the bargain of the century but the Pru's share price had been weak and there had been some fears that the company would overpay."

Sun Life and Provincial, in which France's giant Axa-UAP group has a 60 per cent stake, gained 18p to 297½p, even though yesterday's results were no better than expected, according to analysts.

London and Manchester, which also posted results in line with expectations, was a more modest gainer, the shares edging up 5½p to 411½p.

Composite insurers rallied strongly. Commercial Union, which has particularly strong life operations, gained 31½p to close at 671½p, while General Accident advanced 27½p to 810½. BAT Industries rose a further 19 to 528p.

Bank shares, regarded as oversold in recent weeks, also staged a good recovery. Lloyds TSB, was the day's top performer, rising 28½p to 482½p, with some 15m shares changing hands. HSBC UK-registered stock gained 40½p to £15.16½p, while Barclays gained 26p to close at £10.16½p.

Abbey National, which failed in its bid for Scottish Amicable, gained 21p to close at 735½p. "Management has shown that it is not a case of buying at any price," said an analyst.

There were two newcomers to the market yesterday: Cambridge Antibody Technology and Pathfinder Properties. The former, placed at 500p a share by Cazenove, the stockbroker, made a splendid debut, moving smoothly ahead to touch 620p, before closing at 610p, a premium of 22 per cent, after keen support throughout the day. Turnover in the stock was a hefty 5.3m shares.

Pathfinder's debut on the AIM was more sedate, the property developer's shares settling at 17½p, compared with the 17p issue price. Teather & Greenwood, the stockbroker, brought the company to the market.

Centrica, the gas supply and service company demerged from the old British Gas in February, gave one of the strongest performances in the FTSE 100 after being given a push by SBC Warburg, one of its long-term supporters.

The stockbroker regards Centrica as a substantial recovery story and has labelled the shares a strong buy up to 70p with a medium term share price target of 90p.

Centrica shares initially traded at 64¼p on their official market debut and peaked at 70¼p on February 20 before sliding back to 55p just over a week ago. Yesterday they rose 3¼ to 62¼p after turnover of 10m.

Talk of an acquisition by Associated British Foods following last week's sale of its Irish supermarkets to Tesco, helped lift shares of the former. They closed 26 up at 559p, while Tesco hardened 4 to 339p.

FT 30 INDEX

	Mar 25	Mar 24	Mar 21	Mar 20	Mar 19	Yr ago	*High	*Low
FT 30	2823.1	2788.9	2822.7	2833.4	2868.7	2738.9	2931.4	2658.8
Ord. div. yield	3.93	4.05	4.00	3.99	3.94	3.96	4.22	3.76
P/E ratio net	18.90	17.15	17.36	17.43	17.64	16.24	18.09	15.80
P/E ratio nil	16.73	16.94	17.14	17.22	17.42	15.92	17.87	15.71

FT 30 since compilation: high 2931.4 10/03/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2808.6	2809.2	2815.9	2811.5	2815.5	2818.2	2819.4	2819.6	2822.1	2823.5	2805.4

	Mar 25	Mar 24	Mar 21	Mar 20	Mar 19	Yr ago
SEAQ bargains	65,045	60,364	58,984	62,270	59,809	45,131
Equity turnover (£m)†	–	NA	3422.0	3460.3	2597.3	1891.8
Equity bargains†	–	NA	55,236	58,399	53,271	52,887
Shares traded (m)†	–	NA	1186.0	923.7	812.7	689.0

†Excluding intra-market and overseas turnover but including Crest turnover.

	Mar 25	Mar 24	Mar 21	Mar 20	Mar 19	Yr ago	*High	*Low
FTSE AIM	1110.0	1110.2	1111.2	1108.1	1114.3	996.0	1140.4	985.7

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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	523	Total Highs	32	Total contracts	53,786
Total Falls	829	Total Lows	66	Calls	22,394
Same	1,274			Puts	31,392

Mar 25 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4264.0	4293.0	+35.0	4308.0	4260.0	11865	[illegible]
Sep		4317.0	+37.0			0	2483

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4580.0	4580.0	+7.0	4580.0	4580.0	15	4833

FTSE 100 INDEX OPTION (LIFFE) (*4270) £10 per full index point

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996/97 High	Low	Stock
§100	F.P.	25.0	100	99	Aurora Inv Trust
§50	F.P.	21.8	64	42½	†Birmingham City
§500	F.P.	133.0	620	610	Cambridge Antibody
*	F.P.	3.04	17½	13¼	†Cambridge Mineral
§ –	F.P.	14.1	66	55	†Charlton Athletic
§250	F.P.	36.7	335	292½	Core Group
§ –	F.P.	58.9	335	302½	Diagonal
§200	F.P.	12.2	278	248	†Dobbies Garden
§ –	F.P.	10.8	71½	71½	Domestonic
525	F.P.	2,458	570½	483½	Energy Group
§160	F.P.	24.5	188½	178½	Girovend Cash Sys
§175	F.P.	25.8	210½	198	Heal's
§100	F.P.	20.8	130½	125	Helphire Group
§195	F.P.	110.1	247½	240½	KBC Advanced Tc
§200	F.P.	61.7	278½	259	London Bridge Sw
§	F.P.	13.8	98½	89½	M & G High Inc
§	F.P.	1.82	10	9	M & G High Cap
§	F.P.	20.7	102½	98½	M & G High Pckg
§	F.P.	16.2	80½	77½	M & G High Unit
§17	F.P.	1.87	17½	17½	Pathfinder Props
§ –	F.P.	3.48	3	2½	†Prestbury Leisure
§	F.P.	62.5	292½	220	PSD Group
§ –	F.P.	19.9	122½	119½	10 Group

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to the London Share Service notes.

FT GOLD MINES INDEX

	Mar 24	% chg on day	Mar 21	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (32)	1769.79	-1.7	1798.36	2284.98	1.57	–	2485.33	1624.81
Africa (14)	[illegible]							
Australasia (6)	[illegible]							
North America (12)	[illegible]							

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FTSE Actuaries Share Indices — The UK Series

	Mar 25	Day's chge%	Mar 24	Mar 21	Mar 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 350	2109.4	+1.1	[illegible]								
FTSE All-Share	2082.52	+1.0	[illegible]								

FTSE Actuaries Industry Sectors

	Mar 25	Day's chge%	Mar 24	Mar 21	Mar 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(22)	[illegible]										
20 GEN INDUSTRIALS(271)	[illegible]										
30 CONSUMER GOODS(84)	[illegible]										
40 SERVICES(223)	[illegible]										
60 UTILITIES(33)	[illegible]										
69 NON-FINANCIALS(651)	[illegible]										
70 FINANCIALS(105)	[illegible]										
80 INVESTMENT TRUSTS(127)	[illegible]										
89 FTSE All-Share(914)	2082.52	+1.0	[illegible]								
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										

Hourly movements

FTSE 350 Industry baskets

FTSE INTERNATIONAL

TRADING VOLUME — Major Stocks Yesterday

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

Dow Jones	Mar 24	Mar 21	Mar 20	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Industrials	6905.25	6804.79	6820.28	7085.16 (11/3/97)	5032.94 (10/1/96)	7085.16 (11/3/97)	41.22 (8/7/32)
Home Bonds	102.52	102.55	102.57	106.89 (14/2/96)	100.98 (15/7/96)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2432.28	2424.88	2417.19	2489.59 (18/3/97)	1882.71 (18/1/96)	2489.59 (18/3/97)	13.23 (8/7/32)
Utilities	222.96	221.21	220.09	240.85 (22/1/97)	204.86 (30/7/96)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6933.58(6890.52) Low 6748.63(6742.85) (Theoretical♦)
Day's high 6906.01(6851.62) Low 6783.64(6790.06) (Actual♦)

Standard and Poors	Mar 24	Mar 21	Mar 20	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Composite‡	790.89	784.10	782.65	816.29 (18/2/97)	598.48 (10/1/96)	816.29 (18/2/97)	4.40 (1/6/32)
Industrials♥	921.67	915.35	914.83	950.96 (18/2/97)	702.07 (15/1/96)	950.96 (18/2/97)	3.52 (30/6/32)
Financial	92.87	91.21	90.50	97.25 (10/3/97)	58.87 (10/1/96)	97.25 (10/3/97)	7.13 (4/8/74)
NYSE Comp.	416.00	412.80	411.78	427.70 (10/3/97)	321.41 (10/1/96)	427.70 (10/3/97)	4.64 (25/4/42)
Amex Comp.	587.94	591.22	591.55	617.81 (22/5/96)	524.20 (16/7/96)	617.81 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1242.84	1254.07	1258.26	1388.06 (22/1/97)	988.57 (15/1/96)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	Mar 21	Mar 14	Mar 7	Year ago
Dow Jones Ind. Div. Yield	1.89	1.95	1.93	2.13
	Mar 19	Mar 12	Mar 5	Year ago
S & P Ind. Div. yield	1.78	1.74	1.77	1.87
S & P Ind. P/E ratio	22.38	22.81	22.55	21.26

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Micron Tech	5,900,400	39½	+1⅝
Adv Micro	5,465,200	37⅝	-1½
K Mart	5,238,800	12¼	+⅜
East Kodak	5,154,300	76⅝	-2⅛
AT & T	4,851,700	35	+½
Columb HCA	4,622,300	37¼	-⅜
Philip Morr	4,542,300	116	+4½
IBM	4,500,900	136⅝	+4¼
Telefonos	4,390,300	50	+⅛
Wal Mart	3,702,200	28¼	—

■ TRADING ACTIVITY

● Volume (million)

	Mar 24	Mar 21	Mar 20
New York SE	445.278	534.371	501.617
Amex	16.924	21.171	19.165
NASDAQ	611.775	582.199	647.879
NYSE			
Issues Traded	3,327	3,331	3,297
Rises	1,171	1,249	952
Falls	1,337	1,159	1,539
Unchanged	819	923	806
New Highs	44	44	36
New Lows	54	47	68

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x Index)							
Mar	2611.0	2697.0	+48.0	2630.0	2591.0	31,683	28,014
Apr	2614.5	2628.0	+47.5	2631.5	2594.0	15,333	8,071
■ DAX							
Jun	3344.0	3394.0	+78.5	3395.5	3340.5	21,914	–
Sep	3367.0	3418.5	+78.0	3419.0	3367.5	52	–
■ OMX							
Mar	2118.00	2150.00	+47.0	2150.00	2110.05	9,275	12,673
Apr	2103.00	2135.75	+48.75	2135.75	2101.50	7,209	14,652
■ SOFFEX							
Apr	4522.0	4588.0	+81.0	4650.0	4522.0	4,061	25,075

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	800.50	800.05	-1.20	801.50	799.05	68,721	175,318
Sep	-	808.10	-1.20	-	808.10	293	4,179

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Jun	18200.0	18440.0	+350.0	18510.0	18170.0	32,844	239,473
Sep	18500.0	18410.0	-190.0	18500.0	18390.0	32	2,721

Open Interest figures for previous day.

Sat Mar 22: Taiwan Weighted Price 8234.07; Korea Comp Ex 623.13. Base values of all indices are 100 except: Australia All Ord and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE Nas 100 - 1; NYSE All Common - 50; Standard & Poor's - 10 and Amex Comp - 300. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Mar 25 - 3374.93 +72.36 † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, March 25, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Credit Bk ...	7.7m	302	+15	Mitsubishi Hvy	3.7m	817	-18
Nippon Steel Cp ...	7.1m	336	+1	Mitsui Eng & S Bld .	3.6m	205	+1
Fujitsu	6.3m	1250	+20	Nomura Secs	3.4m	1440	-20
Seven-Eleven Jpn ..	5.8m	7460	+100	NEC Corp	3.2m	1360	+10
Hitachi	3.9m	1070	+10	Sumitomo Mtl Ind ..	3.0m	281	+10

4 pm close March 25

NEW YORK STOCK EXCHANGE PRICES

1996/97 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
32	24¼	AAR	0.48	1.6	24	1590	29½	28⅞	29⅞	-⅛
46⅛	35	AMP	1.04	2.9	27	9023	35⅞	35⅛	35⅛	-¼
97½	68	AMR			6	4544	85⅞	84	84¼	-½
50½	33¾	ASA	1.20	3.5	22	201	34⅞	34	34¼	-¼
60½	33⅛	AbbtL	1.08	1.8	24	6929	60¼	58⅞	59	-½
17½	12¼	Abitibi Pr x	0.40	2.5	8	434	15¾	15¼	15¾	-⅛
20¼	19½	ABM Ind	0.40	2.1	18	97	19½	19¼	19½	+¼
23	13⅞	Acptncdo			9	315	19	18¾	18¾	
66⅛	37¾	ACE Ltd	0.72	1.1	10	549	65	63⅝	64⅝	+1½
10¾	9⅞	ACM Gvt In	0.90	8.8	11	88	10⅜	10¼	10¼	-⅛
7⅞	6⅝	ACM GvOpp	0.63	8.5		177	7½	7⅜	7⅜	-⅛
9⅞	8⅞	ACM Man	0.90	9.2		493	9¾	9⅝	9¾	
13⅞	6⅛	Acme Elect				70	6⅝	6½	6½	-⅛
21⅝	13⅞	Acme Mts			71	32	16½	16⅜	16⅜	-⅛
33¾	27¼	Acordia	0.80	2.4	15	63	32⅞	32½	32¾	
29¾	12	Acuson				518	25⅜	24½	24⅝	-⅛
21⅛	17⅞	Adams Expr	0.55	2.7	1	959	20½	20¼	20½	+⅛
49⅛	10¼	AdvMic				25243	41⅛	37¾	40¾	+3⅛
15	8½	Advest Grp			9	39	12⅞	12¾	12⅞	
26⅛	9⅛	Advo Inc			27	85	12⅛	11¾	11⅞	
73⅞	41⅛	Aegon	1.18	1.7	20	63	69½	69⅛	69⅛	-⅛
6¾	3½	Aeslix				212	3¾	3½	3¾	+⅛
67⅞	40⅞	AES Corp				20	58⅝	58⅝	58⅝	-1¾
93½	57⅝	Aetna	0.80	0.9	66	7255	90¼	87½	90	+2¼

Continued on next page

NYSE PRICES

4 pm close March 25

Continued from previous page

[illegible]

- X - Y - Z -

1996/97 High	Low	Stock	Div.	Yld %	P/E	Sls 100s	High	Low	Close	Chng
63¼	39¾	Xerox x	1.28	2.2	16	11483	59¼	57⅞	58⅛	-⅞
47⅞	39¾	Xtra Corp	0.80	2.0	16	89	41¼	40⅞	41	+¼
25¾	20⅜	Yankee Egy x	1.30	5.9	10	52	22	21¾	22	
57	42½	York Int x	0.48	1.1	12	1638	42¾	d42¼	42⅝	-⅛
5	3	Zapata				477	4⅝	4½	4½	
25¾	5⅞	ZenithEl				736	10¾	10¼	10¼	-⅞
28⅞	21¼	Zenith Nat	1.00	3.7	12	111	27⅛	26⅞	27	+⅛
7½	6½	Zenix Inc x	0.73	10.1		66	7⅜	7¼	7¼	+⅛
23¾	15⅛	Zero	0.12	0.6	15	77	19½	19⅛	19⅜	
11⅜	10½	ZweigFd	1.16	10.3		250	11¼	11⅛	11¼	
9	8	Zweig Tot x	0.84	9.9		487	8½	8⅜	8½	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

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AMEX PRICES

4 pm close March 25

[illegible]

NASDAQ NATIONAL MARKET

4 pm close March 25

[illegible]

- K -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
K Swiss	0.08	115	6	12¾	12¾	12¾	+½
Kaman Cp	0.44	12	685	13⅝	13¼	13⅝	+⅛
Kelly Sv	0.84	13	195	27¼	26⅝	26¾	+⅛
Kimball x	1.04	15	77	38	37¾	38	-⅛
KLA Instr		18	8601	38	35¾	37⅝	+1⅛
Koll A			930				
Komag ♣		14	5287	30⅛	29	29½	
Kulicke S			5533	20⅜	19⅞	20⅜	+⅝

- L -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Labone	0.72	75	51	17	16½	16½	-¼
Ladd Furn			2	15⅛	14¾	15⅛	+⅜
Lam Rsch		10	28951	33½	32	33½	+2
Lancaster x	0.72	16	258	47	46	46¾	-½
Lance ♣	0.96	21	113	17⅞	17⅝	17⅝	

[illegible]

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Rainbow ♣		12	535	17¼	16⅝	16⅞	+¼
Rallys			249		3¼		
Raymond x	0.25	14	57	28¾		28⅝	+⅛
RCSB Fin	0.80	12	736	32¾	32⅛	32¼	+⅛
Read-Rite			20041	27⅞	26⅝	27⅜	+1
Recoton		12	387	13⅞	13¼	13½	-¼
RegFinCp x			1109	60⅝	60	60¼	+¼
Repligen			87	1¼			
Repub Ind			6372	34¾	33⅞	34	-⅜
ResrchMed		23	z0	23¼	23¼	23¼	

[illegible]

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx ♣		28	26627	48¼	45⅞	48⅛	
Xircom		27	2934	15⅜	14¾		
Xoma Corp			2186		5	5	
Yellow			425	17⅛	16¾	17⅛	+⅛
York Rsch		15	1272	8⅛	7½	7¾	-¼
ZionsUtah	1.76	18	632	127½	122¾	127½	+4½

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$8.125		120	8.25	8	Esprit Telecom ADS	US$12.25		0	12.5	12
Artwork Systems	US$10.75		81600	11.375	10.25	Innogenetics	US$12		11700	12.625	10.5
Chemunex	FFr17.5		1081050	19	17	Mercer Interntnl	US$9.625		0	11.375	9
Dr Solomon's ADS	US$22	+0.5	0	26	20.875	PixTech	US$4.625	-0.125	800	6.25	4.5

Prices for 25/3/97. Please note that trading prices are currently used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be

EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

Dow awaits FOMC at midsession

AMERICAS

US shares were flat in quiet trading at midsession yesterday as investors waited patiently for an announcement about interest rates from the Federal Reserve's Open Market Committee, *writes Lisa Bransten in New York.*

At 1pm the Dow Jones Industrial Average was up 10.95 at 6,916.20 and the more broadly traded Standard & Poor's 500 had added 3.70 at 794.59. Volume on the New York Stock Exchange came to 252m shares.

Most Wall Street economists expected the FOMC to push the federal funds rate up a quarter of a percentage point to 5¼ per cent.

Worries about an interest rate increase hurt cyclical shares, which would be hit hardest by an economic slowdown. The Morgan Stanley index of cyclical shares shed 0.5 per cent, while the counterpart index of consumer shares was 0.2 per cent stronger.

Falling cyclical shares included Aluminum Company of America (Alcoa) off $1½ at $70⅝, Caterpillar, dropping $⅝ at $82⅝, and International Paper, which shed $1¼ at $41⅞.

Technology shares, which had been falling for most of the month, posted modest gains in early trading with the Nasdaq composite, which is weighed towards the sector, up 6.78 at 1,249.42. The Pacific Stock Exchange technology index was 0.8 per cent stronger.

Intel, the semiconductor giant which is the biggest issue on the Nasdaq, regained $2⅛ at $133⅜. Since February 4, the company had lost $34⅛ or nearly 21 per cent of its value as some investors took money out of the technology sector.

The Dow derived much of its strength from a bounce in Philip Morris, which had skidded after Liggett Group won immunity from anti-tobacco litigation by agreeing, among other things, to warn on its packs that smoking is addictive. Yesterday, shares in the largest US tobacco company added $2 at $117⅞. RJR Nabisco, the second largest US tobacco company, added $⅝ at $32⅞.

Shares in Warner Lambert, the US pharmaceuticals company, added $2⅛ at $92 on news that an analyst at Morgan Stanley had raised his rating on the company to "strong buy" from "buy".

TORONTO was firm at midday, following through from Monday's rally, but trade was thin and cautious as investors waited for news from the FOMC, and with most already discounting a quarter point increase in interest rates.

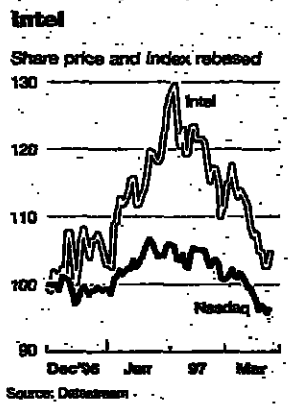
The TSE-300 composite index rose 21.93 to 6,166.18 in trade of 33.2m shares worth C$586m.

Among active stocks, Canadian Imperial Bank of Commerce rose 45 cents to C$34.25 following news that each CIBC dividend capital receipt and secondary warrant would be split on a two for one basis.

The potential merger involving Avenor, Repap Enterprises and Domtar continued to attract attention. Avenor lost 60 cents to C$23.40 while Repap rose 16 cents to C$2.35 and Domtar was flat at C$11.45.

Intel

Share price and index rebased



Source: Datastream

Mexico moves ahead

MEXICO CITY moved ahead on better than expected inflation and current account reports, but trade was very thin in the absence of news on the outlook for US interest rates. At midsession, the IPC index was up 15.33 at 3,843.33.

Among individual issues, nominal shares of the bus maker, Dina, led the gains, up 20 centavos or 4.2 per cent to 5 pesos.

CARACAS drifted higher at midsession in thin trade with many investors already absent for the Easter holiday. The IPC index added 49.57 to 6,303.90.

The benchmark Electricidad de Caracas added 1 bolivar to 514 bolivars; the stock exchange originally reported that Electricidad closed on Monday at 506 bolivars, but subsequently revised that figure upward to 513 bolivars.

BUENOS AIRES edged higher awaiting news from the FOMC and the Merval index was 3.94 higher by midsession at 745.86.

S Africa gold stocks end flat

Johannesburg was steady in cautious trade awaiting the US FOMC meeting although, analysts said, a 25 basis point rise in interest rates was already discounted.

The bullion price, trading above $351 an ounce, rekindled limited interest in golds in afternoon trade, but the golds index ended flat.

Analysts said that some institutional buying was seen at the day's lower levels but turnover was moderate at R613m.

The overall index ended up 0.6 at 7,079.5, industrials gained 11.9 to 8,340.3 and golds made 0.3 to 1,326.0.

Among blue chips, Anglo added 125 cents to R271.50. Nedcor was up 50 cents to R84.50, Sasol slipped 50 cents to R49.75 and Remgro ended up 80 cents to R45.70.

Bourses respond to overnight US gains

EUROPE

With the FOMC decision on US interest rates expected after European hours, bourses decided that they had discounted a 25 basis point increase and did their best *to match the Dow's overnight gain of 100 points or 1.5 per cent.*

FRANKFURT saw the dollar clear the DM1.69 mark, the German domestic bond market gain from better than expected consumer price data, and a further rise in US share prices by the American mid-morning. The Dax index responded with a rise of 72.36 or 2.2 per cent to an Ibis-indicated 3,374.93, turnover rising from DM9.7bn to DM12.4bn.

The response to corporate news was mixed. In steels, Thyssen dived DM35.50 or 8.7 per cent to DM375 after Krupp Hoesch called off its reverse takeover bid. This setback, however, followed a gain of more than 50 per cent this year. Krupp, relatively strong against the market but on a less hair-raising trajectory than its target, fell DM8 or 2.4 per cent to DM329.

On the brighter side, BMW reported higher profits, aimed for higher productivity and profits this year and said that it wanted to raise *its return on sales from 3.2* per cent to 7 per cent in the longer term. The carmaker's shares rose DM61 or 5.1 per cent to DM1,253.

In pharmaceuticals, meanwhile, Merck climbed DM2.35 or 3.6 per cent to DM68.35 after the company reported that its 1996 profits surged 36 per cent, and said that the current business year had started well.

PARIS pitched in with a gain of 1.7 per cent, the CAC 40 index closing 44.97 higher at 2,624.25 and turnover rising from FFr4.8bn to FFr6.7bn.

There was another twist in the Suez/Lyonnaise des Eaux merger speculation after the newspaper, Le Monde, suggested that Lyonnaise *would be the bidder. Suez* recovered FFr3.70 or 1.3 per cent to FFr281 but Lyonnaise fell FFr2 to FFr572.

Sanofi rose FFr19 or 3.6 per cent to FFr542; it signed an agreement to sell sophisticated blood sample test equipment to Beckman Instruments of the US. Essilor, the lens maker, talked about cutting its debt and rose FFr30 to FFr1,530.

Higher profits came from CIC, the banking group, which rose FFr13.50 to FFr368.50; and from Damart, the mail order thermal underwear group, which was the biggest riser of the day with a gain of FFr385 or 8.7 per cent to FFr4,825.

ZURICH looked for support to Wall Street and the rising dollar and, by the close, the SMI index stood 61.3 or 1.4 per cent higher at 4,558.6.

Novartis, SFr46 higher at SFr1,760, was the day's winner among the pharmaceuticals on switching out of Roche. The latter's certificates gave up SFr80 to SFr12,170 as the market digested details of its 1996 profits, which were released after the market closed on Monday. Banks put in a positive performance with UBS up SFr19 at SFr1,282 and SBC SFr7.50 higher at SFr301.50. Credit Suisse rose SFr6.50 to SFr173.

Insurers were mixed, with Zurich Insurance up SFr9.50 to SFr448 and Swiss Re SFr29 ahead at SFr1,492, both making up for ground lost recently. Winterthur edged SFr2 lower to SFr987 on profit-taking.

Nestlé was up SFr6 to SFr1,577; CS First Boston expected the food group to announce earnings growth today of 9.1 per cent to SFr81.20 a share for 1996.

Among the smaller issues, Surveillance and Richemont underperformed, losing SFr80 and SFr15 to SFr2,950 and SFr1,925 respectively.

MILAN moved ahead on renewed strong demand for the telecoms sector, traditionally a target for foreign investors, and the Comit index registered a rise of 5.54 to 735.87.

Stet, the telecoms holding company, jumped L370 to L7,475 and Telecom Italia was L155 ahead at L4,265; on Monday, the treasury fixed 3 per cent as the maximum stake that any one investor could take in the company after the Stet-TI merger and privatisation. TI was also supported after Salomon Brothers confirmed its buy recommendation on the stock. Tim, the mobile telephone operator, was also in demand, rising L157 to L4,747.

AMSTERDAM recouped Monday's losses, the AEX index closing 12.62 higher at 727.84; financials, similarly, recovered from weakness a day before with Fortis Amev up Fl 2.60 or 3.8 per cent at Fl 71.50 after Monday's Fl 2.70 decline.

Heineken rose Fl 12.20 to Fl 334, boosted by Lehman Brothers' decision to put the brewer on its European recommended list; but Polygram fell Fl 2.10 to Fl 92.80 although two films from the entertainment group collected three awards at Monday's Oscar ceremonies in Los Angeles.

MADRID brokers said that most buying was technically-based, and influenced by adjustment of positions at the end of the March quarter as the general index rose 7.34 or 1.6 per cent to 5,438.76.

Telefónica rose Pta70 at Pta3,450, helped partly by unconfirmed reports of a tariff adjustment; Repsol rose Pta100 to Pta5,900 in the run up to the privatisation of the government's last 10 per cent stake in the oil company after Easter.

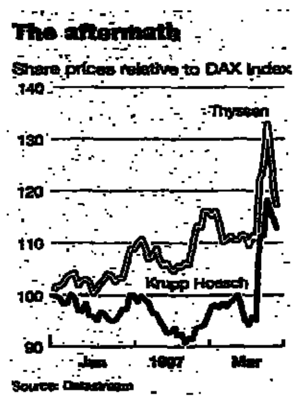
COPENHAGEN celebrated a 68 per cent rise in pre-tax profits, well above analysts' expectations, from the cement and engineering group, FLS Industries. FLS closed DKr25 higher at DKr845 as the KFX index rose 0.46 to 153.30.

ISTANBUL took a 4.5 per cent dive following last week's 10.3 per cent surge, blaming political tensions between the military and the Islamist government wings of the Turkish establishment and a rise in bond yields from last week's 106.77 per cent to 114.71 per cent following the latest auction. The IMKB National-100 index tumbled 74 to 1,577 but turnover plunged to TL26,150bn from Monday's TL40,730bn.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Moerels

The aftermath

Share prices relative to DAX index



Source: Datastream

FTSE Actuaries Share Indices

Mar 25 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2134.91	2135.71	2136.44	2136.63	2138.97	2140.36	2140.83	2140.51
FTSE Eurotrack 200	2158.63	2158.46	2158.49	2158.52	2161.92	2163.97	2164.18	2164.28

	Mar 24	Mar 21	Mar 20	Mar 19	Mar 18
FTSE Eurotrack 100	2126.35	2130.07	2121.04	2141.03	2146.98
FTSE Eurotrack 200	2146.82	2150.57	2143.85	2172.34	2176.63

Base value 1000 (26/10/90); High/day: 100 - 2142.12; 200 - 2165.16 Low/day: 100 - 2134.24; 200 - 2158.83. † Partial.

Tokyo stages rebound as Seoul recoups 3.5%

ASIA PACIFIC

Encouraged by Wall Street's gains overnight and the dollar's rise against the yen, blue chips led TOKYO upward to recoup most of Monday's losses, *writes Gwen Robinson.*

The Nikkei 225 average climbed 395.79 to 18,439.61, after moving between 18,116.99 and 18,548.61. The finance minister, Mr Hiroshi Mitsuzuka, moved yesterday to reassure investors who sold heavily on Monday on his suggestions of a further increase in sales tax after next week's scheduled rise to 5 per cent from the current 3 per cent.

In a morning press conference, Mr Mitsuzuka said that the government intended to proceed with financial reforms, and that it would not consider tax increases until 2005.

Volume eased to an estimated 356m shares from 413m. The Topix index of all first-section stocks added 17.10 to 1,392.81 and the capital-weighted Nikkei 300 was up 3.64 at 267.68. Advances led declines by 811 to 308, with 146 unchanged.

Among international blue chips, Sony climbed Y110 to Y8,410, Fujitsu Y20 to Y1,250 and Nikon Y90 to Y1,690. Toyota gained Y50 to Y3,100 and Honda Y80 to Y3,630.

Banks, construction issues and property companies once again drew investors' interest on the strength of the government's forthcoming plan to revitalise the real estate market through securitisation of property held as collateral by financial institutions. Sumitomo Realty and Development rose Y22 to Y893 and Mitsubishi Estate added Y40 to Y1,460. Among construction issues, Kajima climbed Y15 to Y620 and Shimizu Y12 to Y693.

Nippon Credit Bank, the day's most active issue, added Y15 to Y302 and Industrial Bank of Japan rose Y30 to Y1,390. Nomura Securities, which was raided yesterday afternoon by authorities seeking further evidence of improper dealings, fell Y20 to Y1,440. In a widening scandal, prosecutors announced they would investigate the broker for possible illegal trade in stocks.

Other securities houses gained ground, Daiwa Securities adding Y20 to Y921 in spite of its acknowledgement on Monday that it would report a large loss for the year to March 31 on the stock market's recent declines and a fall in revenues.

In Osaka, the OSE average rose 186.73 to 19,313.85 and volume eased to 337.4m shares.

In London, the ISE/Nikkei 50 edged 1.51 higher to 1,436.71.

SEOUL rebounded 3.5 per cent as the president, Kim Young-sam told his new cabinet to take steps to stabilise financial markets, hard hit by the collapse of Hanbo Steel in January and Sammi Steel earlier this month.

The composite index added 21.64 to close at 638.90 in active volume which picked up to 43m shares.

Some brokers, however, called for caution, saying that much of the day's rise stemmed from a technical rebound following six straight days of declines.

During the day, officials said the finance ministry planned to allow local brokers to issue corporate bonds and to hold up to 15 per cent of a listed company's issued shares, up from the current 5 per cent. Analysts said that this should help to boost brokers' earnings and would give brokers a freer hand in fund management.

TAIPEI turned back to its foot and mouth disease problem, and worried that the island's growing pork crisis could undermine a gathering economic recovery. The weighted index went lower *again, ending 108.45 or 1.3 per cent lower at 7,848.43.*

At T$124.7bn, turnover was active but well below recent near-record highs. A 2.3 per cent rise in electronic shares helped the market fend off a deeper downturn, but the day's selling was also exacerbated by reports of possible war games to be staged by China, although the mainland government had denied that it was planning any large-scale military exercise.

HONG KONG finished higher, but off its best levels on uncertainty over the outlook for prices in an auction of the largest development site released by the government for some time. The Hang Seng index closed 83.39 higher at 12,832.53, off a high of 12,914.89, in turnover that jumped to a heavy HK$10.3bn.

In the event, the development site was sold for a respectable HK$11.8bn after more than two hours of bidding. Sino Land, the buyer, eased 5 cents to HK$8.45. Other bidders were said to have included Cheung Kong whose shares fell 75 cents to HK$70.

SYDNEY followed the Dow up initially but the rally faded after a sell-off in banks on the announcement that the Australian government's report into the financial sector would be released in the week beginning on April 7.

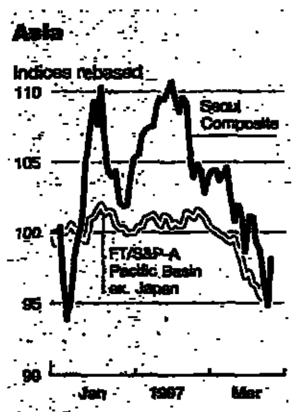
The All Ordinaries index ended 1.3 higher at 2,403.4 in turnover of A$717.7m. Brokers said that, within financials, there had been some switching from the recently strong banks, where ANZ fell 10½ cents to A$8.175, to insurers where the whole sector rose by more than 2 per cent.

DHAKA added to Monday's 7 per cent plunge with another of 6.8 per cent as investors dumped shares on a rumour that a government inquiry could implicate some large brokers in alleged market manipulation during last October and November's bull run and the subsequent sharp pull back.

The DSE index fell 78.57 to 1,074.95 as the market awaited the final report of a committee of inquiry, due *tomorrow.*

Asia

Indices rebased



Source: Datastream

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MARCH 24 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MARCH 21 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	219.71	1.0	202.06	170.57	192.63	185.60	0.8	4.09	217.59	201.14	168.39	190.43	184.13	225.77	188.44	199.54
Austria (24)	184.91	-0.3	170.05	143.55	162.29	162.24	-0.1	1.80	185.54	171.51	143.59	162.38	162.33	195.04	174.70	183.38
Belgium (26)	229.24	-0.6	210.82	177.96	201.19	196.97	-0.3	3.55	230.70	213.25	178.54	201.90	197.59	241.54	204.38	206.57
Brazil (28)	236.89	-0.2	217.86	183.91	207.91	462.86	-0.2	1.12	237.48	219.52	183.78	207.84	463.97	247.23	149.69	156.84
Canada (114)	196.20	1.7	180.43	152.31	172.20	195.59	1.5	1.86	192.98	178.37	149.33	168.87	192.75	203.31	154.12	156.20
Denmark (32)	360.02	-0.9	331.09	279.49	315.98	315.10	-0.6	1.52	363.24	335.78	281.11	317.90	316.97	376.96	291.76	292.67
Finland (26)	252.87	-1.3	232.55	196.31	221.94	267.56	-1.0	1.70	256.29	236.91	198.34	224.30	270.31	268.58	174.47	185.83
France (91)	217.40	-0.5	199.93	168.78	190.81	194.23	-0.3	2.73	218.51	201.99	169.11	191.24	194.70	225.82	186.94	187.29
Germany (59)	199.15	0.3	183.15	154.61	174.79	174.79	0.6	1.54	198.46	183.46	153.59	173.69	173.89	205.33	164.47	174.38
Hong Kong (59)	465.37	2.1	427.97	361.28	408.44	462.94	2.1	3.34	455.67	421.22	352.64	398.79	453.27	514.49	407.55	433.37
Indonesia (27)	228.13	-0.4	209.80	177.10	200.22	336.44	-0.4	1.58	229.05	211.73	177.26	200.46	337.94	-	-	-
Ireland (16)	321.64	-0.7	295.79	249.70	282.29	288.06	-0.8	3.31	323.85	299.46	250.71	283.52	290.27	343.35	258.26	260.02
Italy (59)	83.46	-1.4	76.75	64.79	73.25	105.36	-1.2	2.13	84.67	78.27	65.52	74.10	106.61	96.32	70.61	72.98
Japan (480)	114.45	-1.8	105.26	88.85	100.45	88.85	-1.4	0.89	116.50	107.69	90.16	101.96	90.16	164.68	109.16	149.93
Malaysia (107)	618.50	-0.2	568.80	480.16	542.84	590.34	-0.3	1.07	620.03	573.15	479.84	542.63	591.90	660.65	512.47	551.31
Mexico (27)	1365.08	0.8	1255.39	1059.75	1198.09	11784.06	0.3	1.11	1356.84	1254.25	1050.05	1187.48	11752.30	1445.68	1110.35	1174.08
Netherland (19)	336.93	-1.7	309.86	261.57	295.72	291.89	-1.5	2.64	342.74	316.82	265.24	299.95	296.23	357.18	279.88	285.46
New Zealand (14)	84.59	0.1	77.80	65.67	74.25	64.53	-0.2	4.41	84.51	78.12	65.40	73.96	64.64	95.60	75.94	84.62
Norway (41)	303.96	-0.5	279.55	235.99	266.79	277.14	0.1	2.21	305.39	282.30	236.34	267.27	277.02	321.23	236.19	239.24
Philippines (22)	196.04	0.6	180.28	152.19	172.05	257.37	0.6	0.68	194.82	180.09	150.77	170.50	255.77	-	-	-
Singapore (43)	389.60	1.5	358.29	302.46	341.94	258.36	1.0	1.07	383.75	354.74	296.98	335.85	255.81	449.15	371.28	442.97
South Africa (44)	360.21	-0.2	331.27	279.64	316.15	348.66	-0.2	2.40	360.90	333.61	279.30	315.85	349.29	389.25	301.49	367.44
Spain (35)	210.11	-0.3	193.22	163.11	184.40	228.07	-0.1	2.79	210.84	194.90	163.17	184.52	228.33	228.16	169.82	169.82
Sweden (49)	424.39	-0.2	390.29	329.47	372.47	479.69	-0.0	2.17	425.28	393.13	329.12	372.20	479.70	448.64	334.04	349.77
Switzerland (36)	250.76	-0.3	230.61	194.68	220.09	226.62	0.1	1.39	251.60	232.58	194.71	220.19	226.49	257.68	229.36	250.43
Thailand (44)	80.54	1.6	74.07	62.53	70.69	81.17	1.7	3.96	79.27	73.28	61.35	69.38	79.84	187.79	73.98	182.03
United Kingdom (212)	272.12	-0.4	250.25	211.25	238.83	250.25	-0.9	3.92	273.22	252.56	211.44	239.11	252.56	285.30	226.05	230.57
USA (654)	320.92	0.8	295.13	249.14	281.66	320.92	0.8	1.88	318.34	294.27	246.36	278.60	318.34	331.54	254.79	265.55
Americas (823)	293.86	0.8	270.25	228.13	257.91	247.39	0.6	1.86	291.42	269.39	225.53	255.04	245.37	303.45	233.09	242.27
Europe (727)	239.14	-0.5	219.92	185.65	209.89	221.11	-0.5	2.79	240.27	222.10	185.94	210.27	222.17	248.97	204.71	207.01
Nordic (150)	367.97	-0.5	338.40	285.66	322.95	356.75	-0.2	2.01	369.84	341.87	286.21	323.67	357.59	385.85	285.64	296.49
Pacific Basin (872)	134.52	-1.0	123.71	104.43	118.07	103.33	-0.6	1.40	135.90	125.62	105.17	118.93	104.17	177.01	131.50	163.69
Euro-Pacific (1599)	178.11	-0.7	163.79	138.27	156.32	147.79	-0.6	2.19	179.37	165.81	138.82	156.98	148.71	191.51	176.79	181.84
North America (768)	313.36	0.8	288.18	243.27	275.02	312.66	0.8	1.88	310.71	287.22	240.46	271.92	310.05	323.69	248.65	258.80
Europe Ex. UK (515)	215.84	-0.5	198.50	167.56	189.44	200.46	-0.2	2.15	216.94	200.53	167.89	189.86	200.93	223.97	185.65	189.08
Pacific Ex. Japan (392)	302.44	1.1	278.14	234.79	265.44	261.71	1.0	2.84	299.09	276.47	231.46	261.75	259.06	320.65	268.97	290.09
World Ex. US (1812)	182.00	-0.6	167.38	141.30	159.74	154.04	-0.5	2.15	183.06	169.21	141.67	160.21	154.82	193.47	179.10	183.01
World Ex. UK (2254)	221.91	0.1	204.08	172.28	194.76	197.07	0.2	1.82	221.62	204.87	171.51	193.96	196.63	228.59	199.58	206.29
World Ex. Japan (1986)	283.34	0.4	260.57	219.96	248.68	273.41	0.4	2.23	282.15	260.81	218.35	246.93	272.30	292.72	233.10	240.67
The World Index (2466)	226.23	0.1	208.05	175.63	198.56	201.99	0.1	2.02	226.06	208.96	174.94	197.84	201.78	233.39	202.32	208.48

PLEASE NOTE: Amendments to indices 24/3/97 applied to Canada, related regional indices and The World Index. Latest prices were unavailable for this edition.

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